

THE MODERNISATION OF CHINA (FROM 1978-1988)
AND ITS IMPACT ON ASEAN

by

LAY HWEE YEO

A Master of Arts' Thesis

Presented to

The Department of Political Science

UNIVERSITY OF CANTERBURY

In Fulfilment of the Requirement for

The Degree of Master of Arts in Political Science

1989/1990

CONTENTS

PAGE NO(S)

ACKNOWLEDGEMENT

INTRODUCTION

i - iii

CHAPTER ONE - THE MODERNISATION OF CHINA :
A HISTORICAL INTRODUCTION

1 - 40

CHAPTER TWO - MODERNISATION PROGRAMMES OF
CHINA (1978-1988)

41 - 95

CHAPTER THREE - IMPACT OF CHINA'S MODERNISATION
ON ASEAN'S SECURITY

96 - 136

CHAPTER FOUR - ECONOMIC IMPACT OF CHINA'S
MODERNISATION ON ASEAN

137 - 206

CHAPTER FIVE - CONCLUSION

207 - 227

BIBLIOGRAPHY

228 - 244

ACKNOWLEDGEMENT

I would like to express my utmost thanks and gratitude to my supervisors, Dr Rob Steven and Mr Richard Kennaway for their invaluable guidance, wise counsel and fruitful suggestions, without which this Thesis would not have been duly completed. My deepest appreciation also to the Head of Political Science Department, Dr Jim Lamare for his kind understanding and assistance.

Thanks also to Martin, Geoffrey, Donette and Wanaka for taking up the "laborious task" of proof-reading my thesis.

Last, but not least, my greatest indebtedness to my family, especially to my father, who had given me his encouragement and support right till the day he died.

L.H. Yeo

April 1990

Christchurch, New Zealand

INTRODUCTION

Modernisation has been a goal in China for more than a century. The late Qing Court, the Nationalist Government and the Communist leadership had all tried to launch China onto the road to modernisation. It has been a goal shared by all Chinese leaders but questions concerning the strategy, the scope, the timetable and practical implementation caused much debate, even till these days.

The sweeping economic changes in China in the name of modernisation since Mao's death had sparked off lots of controversies among China watchers as regards to China's future direction and its impact on the international scene. China's embarkment upon a path of modernisation based on increasing dependence on foreign trade, foreign investments and financing was greeted initially with enthusiasm by many countries, particularly Japan and the advanced industrialised countries of the West, partly because of the potential that the China market presented.

However, China's smaller ASEAN neighbours in South-east Asia looked at China's modernisation with some ambivalence. China, by virtue of its physical size, huge population, geographical location, its cultural and historical influence and its communist ideology and rhetorics expounded since the formation of the People's Republic of China in 1949, has over the years resulted in some uneasiness and apprehension amongst her southern neighbours.

It is in the light of these interesting developments in China for the last ten years (1978-88) that this thesis is written. The Thesis is essentially a discussion of China's modernisation efforts for the past decade and the impact these had on her ASEAN neighbours.

Based primarily on library research and secondary sources, a historical background of China's long experience with modernisation is given in the first chapter. The immediate reasons behind the change to the present model of development adopted not long after Mao's death are also explored. Chapter Two then goes on to describe the various new policies adopted by the Chinese leadership in order to achieve the goals of modernisation that they have set.

The impact of China's modernising efforts on ASEAN's security is discussed in Chapter Three. Chinese influence on ASEAN's security is examined with regards to four main areas: China's relations with other superpowers in the Southeast Asia region, its policies towards the ASEAN communist parties and the overseas Chinese and China's claims over the Spratly Islands in the South China Sea.

The economic impact of China's modernisation on the ASEAN countries is dealt with in Chapter Four. As the costs and benefits of China's modernisation is unevenly spread amongst the ASEAN countries, the evaluation is done in the perspective of individual ASEAN countries.

Chapter Five summarises the impact of China's modernisation in the last decade, 1978 to 1988, on the ASEAN countries. It attempts to determine if indeed a modernising China had been a stabilising influence in the Southeast Asian region, contributing to the overall security of ASEAN. It also answers the questions if efforts at economic modernisation in China has helped to explain any changes in China's policies towards the ASEAN communist parties and the overseas Chinese communities in the ASEAN countries.

CHAPTER ONE

THE MODERNISATION OF CHINA : A HISTORICAL INTRODUCTION

1.1: A HISTORICAL BACKGROUND

During the mid-nineteenth century, China under the Qing Dynasty was at the start of its dynastic decline. The Manchu Imperial Government had to reckon with growing economic problems such as the scarcity of arable land due to rapid population growth. With no development of large-scale trade and industries, the surplus labour could not be absorbed. The number of landless peasants swelled, leading to widespread hardship and poverty and thus increasing discontent. Other problems such as the weakening of the Manchu bureaucratic and military systems, rampant corruption and natural disasters all added to produce internal dissension.

Externally, the Qing Government had to contend with the challenges that arose from its increasing contacts with the foreign powers. The changes in the international environment, the rise of imperialism and the impact of capitalism had a significant impact on China's image of itself as the Middle Kingdom of the world. These factors also laid the foundations for change and the future development of China.

Large-scale internal unrest, such as the Taiping rebellion and the challenges posed by the Western powers, especially after the military defeats in the hands of the British during the Opium War (1839-42) and the Arrow War (1845-60), stirred the Qing Court

to an effort at averting further humiliations and reversing the dynastic decline (Rinn-Sup Shinn, 1981:16-20). Two major efforts undertaken by some scholar-officials of the Qing Court to strengthen the Dynasty and achieve some form of modernisation were the Self-strengthening Movement (1861-1895) and the 1898 Reform Movement.

Self-Strengthening Movement (1861-1895)

After the signing of the peace settlement with Britain and France in 1860 following the Arrow War, the Qing Court was able to concentrate its effort (and even mustered the help of the British) in suppressing the Taiping rebellion. Relative peace and order was achieved after the successful crushing of the Taiping rebellion in 1864, and the Qing Court was able to forge a momentary reprieve. This was coupled by reform efforts in the military and diplomatic arenas and also some form of early industrialisation. The main thinking behind the Self-Strengthening Movement was to use foreign technology to control "the barbarians".

The bulk of the Self-Strengthening projects were promoted by provincial authorities such as Zeng Kuofan (Tseng Kuo-fan), Zuo Zongtang (Tso Tsung-tang) and Li Hongzhang (Li Hung-chang). The main sponsor of such modernisation efforts in the Central Government was Prince Gong (Kung).

The Self-Strengthening Movement on the whole comprised only superficial attempts at modernisation. The scope of activity was

limited to firearms, ships, machines, mining and light industries. Western arms, arsenals and steamships were built; modern communications began with the introduction of telegraph and railroad lines and the building of new harbours. Western technical works were translated but no attempts were really made at achieving better understanding of the Western political and socioeconomic institutions, arts and culture. The belief in the superiority of the Chinese political system and Chinese culture was never questioned. The advocates of the Self-strengthening Movement only promoted those projects (especially in the military and defence-industry complex) aimed at increasing military power to resist foreign aggression and to suppress domestic unrest, and more importantly, to fortify their own positions of power (Rinn-Sup Shinn, 1981:20-21).

The limited nature of the modernisation programme, coupled with various other problems contributed to the futility of the Movement. Examples include the lack of coordination amongst those who support the modernisation and reform, shortage of capital and the social and psychological inertia within the society in general and the gentry (the ruling class) in particular. Furthermore, conservative opposition to modernisation abounded. This was the main obstacle to the reform efforts. Chinese defeats in the French War in 1885, followed by another defeat at the hands of the Japanese in 1895, pointed to the inadequacy of the limited modernisation that was pursued during this period (Hsu, 1975:356).

The Hundred Day Reforms (1898)

The defeat by the Japanese in 1895 (which resulted in the annexation of Korea by Japan) signalled the impending demise of the Qing Dynasty and ushered in a period of accelerated foreign imperialism and the scramble for concessions, for instance, the German's lease of Kiaochow, the Russian's appropriation of Liaotung peninsula, the French lease of Kwangchow, the British's hold on HongKong, and so forth.

The cutting of China into various foreign enclaves threatened the partition of the Qing empire. The frightful prospect of such dismemberment precipitated a reform movement in China in 1898. The need for a more extensive reform than those taken during the Self-strengthening Movement was recognized by scholars, officials and even the Emperor and the Empress Dowager, although they differed on the question of the nature and scope of the reforms.

During this period policy differences intertwined with power struggle between the Emperor and the Empress Dowager, adding an important dimension to the conflict between the conservative reformers and the more progressive reformers.

The important advocates of conservative reforms were Weng Tongho (Weng Tung-ho), the imperial tutor and Zhang Zhidong (Chang Chih-tung). These conservative reformers advocated saving China by reviving Confucianism as the moral basis of state and adopting Western devices for practical use. The thinking behind

was reflected in Zhang's "ti-yong" theory (Chinese learning for the foundation (ti) and Western learning for application (yong)).

However, the radical reformers led by Kang Youwei (Kang Yu-wei) and his student Liang Qichao (Liang Chi-chao), wanted a more fundamental change in the political institutions and administrative strictness and procedures by adopting Western methods and principles.

The Emperor supported the more radical reforms suggested by Kang and Liang. On the other hand, the Empress Dowager was initially not opposed to efforts at modernisation so long as the basic Chinese traditions and institutions were preserved. But when the reform programmes suggested by Kang (such as the proposal to replace the eight-legged essay in the Civil Service Examinations by essays on current affairs; abolition of some offices deemed as unnecessary by the reformers, for example, the Office of Transmission, the Banqueting Court, the Court of State Ceremonial, the Imperial Stud, the Court of Sacrificial Worship; appointment of more progressives in government and so forth) began to threaten some of the bases of Chinese institutions and traditions, and more importantly her power base, she began to withdraw her support for the whole modernisation movement. Suspecting the Emperor of trying to use the reforms to wrest her authority and oust her out of power, she intervened by staging a palace coup and put the Emperor under house arrest.

As the reform movement began to take the form of a power struggle between the Emperor and the Dowager, it was doomed to

failure, as power had always been vested in the hands of the Empress Dowager. There was also considerable opposition from high officials, both in the Central and Provincial administrations. The Hundred Day Reform advocated by Kang thus ended with the execution of six of its principal advocates and the flight of Kang and Liang (Hsu, 1975:433-467).

The 1911 Revolution

With the deepening crisis and the failures of both reform efforts initiated by some Qing officials, many Chinese began to see outright revolution as the only solution to end internal discord and foreign influence. The Republican Revolution was another attempt to bring China into the modern age to meet the challenges posed by the internal disintegration of the old order and the external imperialist West.

The establishment of a Republic in China after the successful Wuchang Revolution on 10 October 1911 was an epochal event in Chinese history. It brought an end to more than 2,000 years of imperial dynasties. However, the Revolution was an incomplete one. It did not result in a unified China. Neither did it succeed in stopping further foreign encroachment into China's territorial integrity (Wang, 1977:1).

The subsequent Nationalist Government (1927-45) under Jiang Jieshi (Chiang Kai-shek) struggled to carry out Dr Sun Zhongshan's (Sun Yat-sen) legacy of national reconstruction to build a modern China. Although some progress in the fields of

finance, communications, industrial developments and education was achieved, the much-needed basic socioeconomic reforms were neglected. Thus, on balance, the Nationalist Government was not entirely successful in propelling China to the route of advancement.

The Rise of Communist China

The Nationalist Government's ineffective attempt at modernisation was the major reason for its downfall. The crisis in China at the macro sociopolitical level deepened, especially during the period of the Sino-Japanese war from 1937-45. However, it was also during this period that the influence of the Chinese Communist Party (CCP) began to grow rapidly.

The success of the CCP in bringing the whole of China under its control by 1949 was indeed a remarkable achievement. With the formal establishment of the People's Republic of China (PRC) on 1st October 1949, a sense of euphoria swept across the whole country, as it marked the end of more than a century of humiliation.

After the euphoria, like previous governments, the Chinese Communist leadership had to face the realities of tackling the vast problems that existed in the society. Attention was turned towards reconstruction and the attainment of modernisation in all fields, an overriding concern of Chinese leadership for a whole century.

From 1949-57 China pursued the goal of modernisation based on the Soviet model, that is, basically an industrialisation programme with great emphasis in the heavy industries. The regime's primary goals in the initial reconstruction period (1949-52) were relatively modest, namely, to restore pre-1949 peak levels of production in both agriculture and industry, establishing state control over the economy and carrying out land reform in the countryside in preparation for later collectivisation.

Having achieved its initial goals, the Chinese government then embarked upon its First Five-Year Plan (1953-57), a more ambitious programme of rapid development. Following the Soviet's model, priority was given to industry over agriculture and to heavy industries over light industries. Beijing looked to Moscow for both advice and aid.

The basic objective during the First Five-Year Plan (FYP) was to maximise the rate of growth through high investments and low consumption. Though egalitarian social values were not ignored, the requirements of economic growth were given higher priority. The regime attempted to institute a highly centralised system of economic planning. It focused on the bureaucratic management of the economy by experts and professionals. Industrial management policies were modelled on Soviet practices which stressed the key role of highly qualified enterprise management (Barnett, 1974:121-123).

Though an overall impressive growth rate of an average of 7%

a year was achieved during the First Five-Year Plan (estimate by Joint Economic Committee, US Congress, 1968) several problems remained unresolved. For instance, because of the emphasis on capital-intensive heavy industries, there was problem of absorbing the surplus labour. Excessive investment, general economic overexpansion, over-emphasis on production and quantity, all created bottlenecks and caused financial difficulties. Agricultural output lagged seriously behind the people's growing needs. New problems due to increased urbanisation also emerged.

Besides the practical economic problems, Mao also began to worry about many of the socio-political consequences that arose from this development strategy. For example, he was disturbed by the increasing influence and power of China's huge economic bureaucracy. With increased bureaucratisation, specialisation and professionalism, the regime's commitment to egalitarian revolutionary goals (in Mao's eyes) weakened. The masses were also slowly being alienated, as the gap between the rulers and the ruled widened (Barnett, 1974:123).

Partly because of the strength of China's own heritage, particularly the tradition of authoritarianism and the special status of the intellectuals in the society, and partly because of the policies adopted during the First Five-Year Plan, Mao felt strongly that China was still far from the ideals of a Communist society as defined by him. These were manifested in many aspects of the society. For instance, in industry, the structure was still characteristic of capitalist organisation, with each

enterprise containing its own managerial, technical and trade union hierarchy. Based on managerial authority and a high degree of specialisation, heavy emphasis was put on individual material incentives and codified regulations and procedures. To handle the tasks of economic construction, the bureaucracy was increasing, helping to perpetuate the traditional class of pattern of worker, professional (specialist) and manager. Many institutions in China were still organised in such a manner as to isolate the intellectuals from the workers and peasants (Collier, 1973:22-36).

In the villages, the process of collectivisation was carried out rather slowly. There were state farms where the employees received wages, as in industry, but these accounted for only a small part of the agricultural population. The land reform had created a class of well-to-do peasants, and some enriched themselves further by money-lending activities. On the other hand, the majority of peasants, lacking technical know-how and sufficient means of production, were still subjected to poverty. Mao was thus also worried that the tendencies towards polarisation, if not checked, would create further problems (Chang, 1975:11-12).

Mao became increasingly concerned with the reduced emphasis on revolutionary values and he worried about the erosion of his power. Thus he began to impose his vision as the effective means for achieving modernisation. The Maoist vision of the spiritual transformation of the people and the society - the subjugation of personal needs for the collective good and the participation of

everyone in this transformation, was not only applied to achieve modernisation, but was became an end in itself (Schwartz, 1965:175-179). The Great Leap Forward and the Commune movement of 1957-59 marked the high tide of the application of the Maoist vision to the tasks of modernisation. This new developmental strategy was designed both to accelerate growth and to promote Mao's revolutionary political and social values.

The Great Leap approach centred on a newly created socioeconomic and political system in the countryside: the formation of communes. They were designed to maximise the mobilisation of local labour and other resources to encourage local self-reliance and self-sufficiency. Planning and economic management were decentralised from the top down to the local authorities. The importance of technical experts, specialists and professionals was de-emphasized. Instead, the power of party's generalists at the provincial levels increased substantially. Ideological and political incentives were emphasized over material incentives. Consumption was also reduced in order to increase savings and investments.

Though innovative, the idealistic goals of the Great Leap Movement coupled with the natural disasters during the 1959-61 period interacted to produce massive economic problems. There were breakdowns of central planning, shortages of raw material because of wastage, overproduction of poor-quality goods and serious food shortages due to poor harvests (Barnett, 1974:124-126).

Agricultural production was adversely affected by deficient water conservation projects and faulty de-alkalinisation of the soil. Intensive use of machinery without proper maintenance in order to keep up with the high production quotas resulted in the rapid deterioration and damage to the tools (Chou, 1964:851-858). Grain output declined from 200 million metric tons in 1958 to 165 million tons in 1959 and to 160 million tons in 1960. The general agricultural production index, taking 1957 as 100, dropped from 108 in 1958 to 86 in 1959 and 83 in 1960. The industrial production index, however, fared slightly better: it rose to 131 in 1958 and 166 in 1959, but then fell to 161-3 in 1960 and 107-110 in 1961 (Joint Economic Committee, US Congress, 1972:5). The industrial indices, however, were misleading. Though production went up as a whole, the indigenous production methods and small-scale industries enormously wasted raw materials and operating costs were high while they yielded low quality products. For instance, the steel turned out by the backyard blast furnace could not meet industrial requirements, and more disheartening was that many of these makeshift furnaces dissolved in rainstorms.

On the whole, the results of the Great Leap and the Commune Movement were discouraging and there was great discontent among the people (Joint Economic Committee, US Congress, 1975:5). The Gross National Product (GNP) dropped from US\$95 billion in 1958 to US\$92 billion in 1959, to US\$89 billion in 1960 and US\$72 billion in 1961.

Faced with this situation, the Chinese leaders had no choice but to retract from the Great Leap programmes. The retreat was carried out under the supervision of Liu Shaoqi and Deng Xiaoping. The retreat started from 1960 and marked a return to a more sober estimate of modernisation but no longer on an exclusively Soviet model as pursued during the First Five-Year Plan. The immediate strategy involved compromises between the policies of the First Five-Year Plan and those of the Great Leap. The approach was essentially pragmatic and focused more on the basic problem of survival.

Early in the process of retreat from the Leap, the regime took major steps to restore incentives in both agriculture and industry. The Commune idea was temporarily set aside, and local responsibility for both production and distribution were decentralised to the production teams. Functional specialists and experts came to the forefront once again, and renewed attention was given to efficiency and technical improvements. Profitability was used to measure an enterprise's performance and market forces were allowed to play a greater part than before. Egalitarian considerations were given less importance, as emphasis was placed on material incentives to spur production efforts.

The highest priority was given to agriculture to solve the grain shortage. To encourage higher agricultural growth, not only were private plots re-established and free markets re-opened, but modern industrial inputs into agriculture (such as chemical fertilisers) were steadily increased. The directives for agriculture again made the production team, instead of the

production brigade, the basic unit for agricultural production. Individual incentives tied to workpoints were emphasized. During this period, a further set of four policies was applied throughout the country. Known as the "Three Freedoms and One Responsibility" (*San zi yi bao*): they were the freedom to increase the size of private plots for individual families to cultivate; freedom to develop small enterprises with sole responsibility for profit and loss; and freedom to develop an open market. The one responsibility was to fix output quotas based on the household (Howard, 1977:288-9).

Although some form of collective work was maintained, such as the development of water control, increased mechanisation and supply of artificial fertilisers, in general the *san zi yi bao* system stimulated the growth of private enterprises and weakened the collective spirit of the peasants.

In the industrial sector, the Seventy Clauses of the Directive for industries which emphasized the authority and responsibility of management and the technical authority of the professionals and experts. It severely tightened labour discipline, emphasizing on rules, regulations and material rewards. Piece rate systems and bonuses were used to increase productivity (Collier, 1973:51-2).

The readjustment policies seemed to work, and by 1965 China had recovered from the post-Leap crisis. However, the emphasis on economics over politics was not universally accepted, for it compromised the kind of revolutionary values (constant class

struggle, active participation by the masses, and so forth) that Mao wanted to sustain and enhance.

As the process of economic recovery took place during 1962-65, so did the polarisation within the leadership. The issue over the right path to modernisation and to what extent the Communist values should be compromised surfaced again and culminated in a power struggle between two factions in the top leadership : the Maoist faction which believed in the basic correctness of the Great Leap policies, and the Liu faction comprising Liu, Deng and other party apparatchiks who wanted to save the economy following the failures of the Great Leap.

As the conflict widened, a dichotomy between political and economic policies emerged. In the field of politics, Mao pushed steadily from 1962 on for radicalisation. However, in the field of economics the regime's bureaucratic leaders, planners and administrators continued to support the relatively pragmatic non-revolutionary approach. This dichotomy contributed greatly to the growing tensions that set the stage for the Cultural Revolution.

A parallel could be drawn here between the conflict within the Communist leadership and that of China's late nineteenth century Qing leaders. At both points of time, the leaders were committed to the goals of modernisation. The fervent wish to make China strong again was widespread. However, the dilemma was over how much of the traditional Chinese values (in the case of the CCP - Communist values) should be compromised.

China's nineteenth century moderate (conservative) reformers led by Weng Tongho and Zhang Zhidong and tacitly supported by the Empress Dowager approached modernisation on the assumption that while it was necessary to borrow utilitarian practical learning from the West, it was important to preserve the essential values embodied in Confucianism (the "ti-yong" theory expounded by Zhang). Their goal was to obtain the results of the modern scientific and technical revolution without accepting the intellectual, cultural and social underpinnings of modernisation. However, the other group of reformers led by Kang Youwei and Liang Qichao supported by the Emperor, proposed more far-reaching changes without which they believed modernisation cannot succeed. The conflict between these two groups of reformers was not only over the concrete policies but extended to become a power struggle between the Emperor and the Empress Dowager.

Similarly, not long after the establishment of the People's Republic of China (PRC), the Communist Party leaders differed on their views as to how to achieve modernisation. Mao wanted China's scientific and technical modernisation to proceed without compromising the essential ideological and social values which he deemed necessary to maintain the revolutionary fervour in society. Mao sought to avoid many of the consequences of modernisation in other countries, such as large-scale urbanisation, mushrooming bureaucracies and specialisation leading to elitism. He was even willing to slow the process of modernisation in order to avoid such undesirable consequences. On the other hand, another group of leaders, led by Liu Shaoqi was

more inclined to accept such trends as inevitable in the process of modernisation. Basically the latter believed in first building up a strong economic base before changing the consciousness of the people (Barnett, 1974:19-20).

To this day, the controversy over the path to modernisation persists. Even with the Open-Door Policy over the last decade, differences over the speed, scope and extent of this policy remained. One might therefore see the modernisation programme for the last decade from 1978 to 1988 as a temporary triumph of one group of leaders in pushing ahead with their strategy of achieving modernisation. However, the immediate reasons leading to the victory of Deng Xiaoping and his supporters in the power struggle and in pushing ahead with their reforms resulted from the particular legacy of the Cultural Revolution.

1.2: THE IMPETUS FOR CHANGE

Ideology, personality and the instruments of governing set much of the tone of the first years of the PRC. However, policy issues and the need to make hard choices about how to modernise China intensified the divisions within the leadership. Throughout the long period of struggling for power in the 1930s and 1940s, it had been possible to submerge personal differences. Furthermore, a lot needed to be done in the initial years of reconstruction to keep everybody busy. However, in time to come, substantive policy problems became increasingly troublesome

especially when they merged with power struggles within the top leadership. Ultimately, all these problems plunged the leaders into open conflict (Pye, 1984:256).

Differences over policies, the strategies and tactics developed into conflicts; and the conflicts become identified with personalities and were overlaid with bids for power (Dutt, 1970:1-2). Mao's struggle both to re-establish his personal power (demanding absolute and unquestioned obedience from his associates and followers) and to shift the overall course China was following eventually led to the Cultural Revolution.

By launching the Cultural Revolution Mao sought to loosen the strengthened grip of the bureaucracy over society. Relying primarily on mass mobilisation and mass campaigns to keep society in constant turmoil (in Maoist terms - continuous class struggle) Mao deliberately sought mechanisms to prevent a bureaucratic domination in China. However, the revolutionary effort to transform Chinese society left behind a troubled economy and a social crisis followed by a loss of popular confidence in the ruling Communist Party and its ideology. The Cultural Revolution seriously undermined the legitimacy of the Communist leadership, and the ideological and power struggles undermined the unity of the party. Communist ideology degenerated into slogans to support factions in the struggle and it ceased to legitimise the regime (Stavis, 1988:18).

The origins of the Cultural Revolution could be traced back to the days of the Great Leap Forward. The Great Leap Forward

marked the great divide in the history of the Communist China. It raised disagreements within the top leadership to the point of bitter conflicts. It was also at this time that the Sino-Soviet rift widened and the Soviets began to withdraw all their technicians and all forms of aid from China. The country was in serious economic dislocation. There was also a sense of weariness and bitterness on the part of the people, who felt that they had received too little for so much hard work during the Great Leap (Schwartz, 1969:115).

The failure of the Great Leap programmes gave the party apparatchiks led by Liu Shaoqi enough ammunition to question the precipitous course of development charted by Mao. Mao had no choice but to retreat into second line leadership, while Liu and Deng advanced into the first line. Although retaining his position as the Chairman of the Party's Central Committee, Mao was replaced by Liu as the Chairman of the People's Republic. Deng Xiaoping was appointed Secretary General of the Party in charge of the Secretariat.

With their newly elevated positions, Liu and Deng began to push for a more institutional and economically rational approach towards development. Faced with massive economic problems, they decided on a crash programme of aid to agriculture and a policy of liberalisation, relying on material incentives to induce the people towards greater productivity.

Unhappy over the strategy adopted by Liu, Deng and their supporters and angry that he was being pushed into the second-

line leadership, Mao attempted to recover control over the party and the country by launching the Cultural Revolution. He wanted to establish the supremacy of his authority and his approach towards social progress by revitalising and politicising the masses. Thus the major issues of the Cultural Revolution were the underlying conflicts between the two factions over the forms and speed of transforming China.

(1) Issue over Modernisation strategy

Chinese leaders shared a common faith on the broad goals of modernisation. Differences concerned immediate and short-term problems: on what priorities to give to various objectives, how fast the pace of change should be in a given area, what institutional changes were desirable and how existing resources should be allocated (Barnett, 1974:5). The dilemmas and policy choices facing Beijing's leaders involved the following :

(a) The role of "experts" in the development of China

To what extent a person should be "red" and to what extent an "expert" has been a controversial issue for many years. Mao emphasized the importance of ideological dedication and purity above expertise or technical skills (Barnett, 1974:154-2).

In the initial years of the People's Republic of China, the Chinese leadership was willing to overlook some

ideological inadequacy in order to tap the knowledge and expertise of a vast array of people to contribute towards the reconstruction of China. Mao also recognised the need for technical experts in modernising China and the crucial role that intellectuals play in shaping a society's values. However, he also feared that growing professionalism and specialisation would endanger the egalitarian values that he believed were essential for a genuinely revolutionary society.

It was Mao's hope that the regime would be able to create a new generation that would be both red and expert, that is, loyal, ideologically motivated, servants of the revolution and technically proficient specialists capable of performing the complex tasks required in a modernising society (experts). However, when faced with a choice, Mao insisted on political correctness above all. He would prefer "reds" who were not "expert" to "experts" who were not red. He feared that professionals and technical experts who were not "red" might undermine the kind of commitment to the ideological dogma that he sought to build up and which he saw as crucial in maintaining the revolutionary fervour in China (Barnett, 1967:25-27).

The irony of the situation, however, was that the process of modernisation required and helped to create specialists who tend to value professional competence over ideological commitment. Although the experience during the Great Leap pointed to the fact that professional competence

could not be totally substituted for by ideological militancy and that the role of professionals and specialists was crucial in contributing towards the development of China, Mao stuck to his view that politicisation must come first. He maintained that doctrinal purity must be the most important quality. To him, the professionals and specialists should not be allowed to escape thought reform in the name of professional competence.

On the other hand, many party functionaries led by Liu were convinced that the country's progress depended on training large numbers of technically proficient and professionally competent persons in various fields. Although they shared Mao's views that the maintenance of ideological orthodoxy was important, they were not convinced that revolutionising a nation's values could be rapidly accomplished in a country whose traditions reached as far into the past as China's. They were therefore disposed to give a lesser priority to ideology and a higher priority to increasing the efficiency of China's institutions, mobilising the country's resources, increasing production and promoting growth. In sum, they tended to stress the crucial importance of expertise even at the expense of redness or ideological purity. They favoured rather than opposed the values embodied in the professional ethic, accepting that the price for this might be a society that would be less egalitarian and more elitist than the Maoist ideal (Barnett, 1974:18).

Thus during the rehabilitation period immediately after the Great Leap, the role of professionals and other specialists was again emphasized. These people were given wider scope of authority, leading to what Mao saw as the growth and stratification of new technocratic elites and the decay of revolutionary spirit. He repeatedly insisted that the regime must take vigorous steps - including intensive indoctrination of all elite groups and universal participation in manual labour, to prevent the rise of elitism and to narrow the gap between intellectual and manual workers. And as soon as conditions permitted, Mao insisted again on the enforcement of this concept and the purging of all those who did not fall in line (Dutt, 1970:87-8).

(b) The issue on material incentives

Basic to Maoist ideology is the value of equality in austerity. According to Maoism, a true Communist is willing to work hard for the glory of communism with no expectation of personal benefits. It emphasizes the individual's overriding commitment to a society and total immersion into the collectivity. And this state of total identification with social goals has to be achieved through spiritual transformation and not the use of material incentives (Schwartz, 1965:171-174). Mao had consistently been uneasy about economic incentives because of his belief that people

should be motivated by ideology and not material gain. The problem was how to inspire dedicated work primarily by the use of nonmaterial incentives (Barnett, 1974:15).

Maoist goal had been to transform the incentive structure of the economy, to develop new ideological, political and moral incentives, and new kinds of social and psychological rewards that would substitute for material incentives (Hoffman, 1967:21 as cited in A Doak Barnett, 1974:130).

However, the truth is that Chinese workers were extremely responsive to the benefits they received. Consequently, Chinese planners had substantial evidence that material incentives could be extremely useful to the government. Political loyalty and economic performance directly followed the receiving of material rewards. Yet the country did not have enough resources to provide material rewards for all who worked hard. Thus people also had to be encouraged to expect self-sacrifice and to seek moral and spiritual rewards (Pye, 1984:270). The problem was striking a balance between the use of these two broad types of incentives.

(c) Centralisation versus local initiative

Another fundamental issue for Chinese development has been the question of how centralised China's economy and society could become without greatly reducing efficiency.

The heart of the issue of centralisation versus decentralisation was how, where and to whom economic powers, responsibilities and benefits should be allocated. A key question was whether to give extensive powers to people in the higher levels of administrative authority extensive power in order to facilitate control, planning and coordination or to increase the power of lower level authorities in order to stimulate local incentives and initiatives and to permit greater adaptation of policy to local conditions. These decisions involved difficult questions regarding who should exercise the powers allocated to lower levels - government economic bureaucrats and experts, professional managers or party cadres who were political representatives of the masses (Pye, 1984:136-7).

During the first years of Communist government, the need for national unity and acceptance of the regime's legitimacy became confused with the belief that centralised direction would accelerate Chinese economic and political development. Towards the later years of the First Five-Year Plan, a centralised administrative system evolved. However, the excessive growth of central bureaucratic power generated some problems. For instance, the concentration of authority in the ministries in Beijing gave rise to delays in making decisions and settling day-to-day questions. The high degree of centralisation placed enormous power in the hands of the ministries in Beijing and resulted in a tendency towards ministerial autarky (Chang, 1975:52).

During the period of the Great Leap Forward, changes in the administrative system, involving an enlargement of the power of provincial authorities were proposed. There was to be increased provincial control over industry, finances and economic planning. The influence of party cadres at provincial and local levels therefore increased greatly and the functions and power of the central ministries were cut back significantly.

However, it was extremely difficult to find a workable balance between centralised control and decentralised authority. The implementation of the Maoist strategy during the Great Leap period gave the provincial authorities greater control over the economy. Since economic planning had been decentralised and no effective regional coordinating bodies existed, undesirable tendencies displayed by the provincial authorities such as the construction of independent industrial complexes within the provinces and the unsupervised use of the extrabudgetary funds in capital construction, were not checked for a long time. The cumulative effects of these development were an excessive economic over-expansion, over-investment and waste of resources. As a result, the development of China's economy was retarded (Hollister, 1964:18).

Thus following the retrenchment from the Great Leap Forward, centralised economic planning was again imposed, though not to the same degree as during the First Five-Year

Plan. However, Mao still maintained that strong centralisation created problems. Most serious were the difficulties of excessive bureaucratisation. Centralised control meant domination by officials in Beijing who were generally out of touch with local problems and the attitudes of workers. Mao's attack on the economic bureaucracy reached its shrillest note during the Cultural Revolution.

(2) Issue over State Building

Related to the issue of modernisation was the strategy over state-building, that is, the conflicts over the mass line (mobilisation) and the institutional, centralised approach. The moderates wanted to strengthen the political institutions, such as the Ministries and the State Bureaus, and preferred to have a systematic code of laws to rule China. However, Mao wanted to uphold the mass line strategy to politicise the masses. He was always aware of the danger of bureaucratisation and the alienation of the masses. From the Great Leap Forward to the Cultural Revolution, Mao resorted to mass politics, bypassing bureaucratic obstacles so that he could get the support of the people. Liu and Deng were purged by means of mass criticisms engineered by Mao.

As a result of central economic planning, there was a rapid growth of government institutions, especially the economic bureaucracy. The party not only failed to curb bureaucratic excesses but itself became infected by them. The greatest danger

in this trend as perceived by Mao, was not so much the party losing its separate identity from the government but losing contact with the people (Schwartz, 1969:109).

The growing trend towards bureaucratisation and routinisation in China, in the party as well as in the government, was seen by Mao as undermining the revolutionary character of the regime. Despite all the top leaders' efforts, old bureaucratic patterns of behaviour and pressures towards administrative regularisation reemerged. The party and government cadres in China increasingly became an elite set apart from the population. This elite was highly stratified and rank-conscious (Barnett, 1967:27).

Moreover, within the party itself, there was a steady trend towards the development of specialised interests and functional differentiation. Many officials and cadres were accused of "departmentalisation", a catch-all phrase referring to such practices as the establishment of protective interpersonal relationships among mutually vulnerable officials and the promotion of private interests in disregard of the interests of the state and the masses (Baum, 1971:68).

(3) The Power Struggle

Along with policy differences, a gigantic power struggle between Mao and Liu took place. The catastrophic failure of the Great Leap and the discouraging results of the Commune Movement

in 1958 saw a reduction in Mao's power and prestige within the party. The ideas and concepts that formed the nexus of Mao's philosophy of development came under sharp criticisms within the Communist Party, and Mao himself did not escape blame for the resulting mess. So Liu Shaoqi quickly occupied the central stage and entrenched himself in the party and bureaucracy. Liu then further built up his own independent and rival power base (Dutt, 1970:85-7).

To prevent once and for all any threat that Mao might lapse back into any "radical policies", Liu had to consolidate his power after the dismantling of the whole Great Leap movement. He strengthened his own team by putting Deng Xiaoping into the position of General Secretary of the Party Secretariat and also his trusted compatriots, Lu Tingyi and Luo Ruiqing into the Secretariat of the Central Committee. At the same time, to discredit Mao, he eventually took over the criticisms which Peng Dehuai had made of the Great Leap (Leys, 1981:36-7).

Mao thus found himself gradually restricted

to the role of some kind of ancient totem; everyone genuflected to him but he was completely powerless.
(Leys, 1981:32)

Proof of the fact that he had been forced into the background was supplied during the Cultural Revolution, when Deng Xiaoping confessed that over the whole period he had settled all the party's affairs without ever referring them to Mao (Quoted in Ming Bao, 18/8/67, as cited in Simon Leys, 1981:32). Another example was shown in the Red Guard wall posters put on display in

Beijing in early January 1967, which quoted Mao as saying that Liu and Deng "treat me like their dead parent at a funeral" (New York Times, 6/1/67).

For a man who had ruled the country since 1945, Mao was not prepared to let power slip out of his hands without any fight. Even after the failures of the Great Leap and the Commune Movement, Mao remained convinced of the effectiveness of ideological education and the correctness of his Great Leap policies. He had been forced to give concessions in order to tide over the crisis, but the passage of time did not soften his resolve to strike back at those who criticised the Great Leap policies. The bitterness of the denunciation in the Cultural Revolution of those who raised doubts about his Great Leap policies and the emphatic reassertion of the correctness of the Great Leap policies was an indication of Mao's moods and convictions (Dutt, 1970:75-6).

He was obsessed with his own ideological correctness and infallibility. To exert his ideological authority, it was not enough for him to be only the people's nominal leader, teacher and philosopher. Power had to be monopolised. He wanted absolute and unquestioning obedience from his associates and followers. He hated to be questioned about the soundness of his decisions for he considered himself to be the man who had every right to charter the course for the new China he had created (Chou, 1982:201-3). Thus, at least since 1962, (after the economy showed signs of recovery), Mao engaged in a gradual but escalating

struggle to wrest back power and pull down Liu Shaoqi.

The Cultural Revolution

The ongoing conflict between the top leaders over the various issues of modernisation and the ensuing power conflict finally culminated in a mass movement - the Cultural Revolution - to purge the Maoist opponents in the entire party and government apparatus.

The most immediate event leading to the Cultural Revolution was the Socialist Education Movement in 1962. The major aim of this Movement was to cleanse all Chinese of any anti-Maoist tendencies. The Movement called upon the people to arm themselves with Mao's Thought. It was designed to rectify the shortcomings of the cadres at the grassroots level. Many cadres from the city were sent to the countryside to live and work with the peasants and to learn from them. More specifically, the goals of this Movement were to educate and remould the peasants with proletarian ideology; to raise the class awakening of the broad masses; to improve the ideological work-style of the cadres; to promote closer relations between the cadres and the masses; to overcome and prevent erosion by capitalist ideology; and to consolidate the collective economy. The Socialist Education Movement also came to be known as the Four clean-up campaigns - to clean things up in the field of politics, ideology, organisation and economy (Tao Chu, "The People's Communes are Making Progress" Hong Qi, No. 4 26/2/64, as cited in Dutt, 1970:22).

Mao was determined to carry out his vision of the Socialist Education Movement, but he encountered resistance, and, the Socialist Education Campaign was not following the course that he intended. Though the party leaders at various levels did not oppose Mao directly or challenge his campaigns, they also did not carry out his Socialist Education movement adequately. Although Mao could and did make the basic policy decisions, his overall ability to control events was diluted because other party leaders who controlled the operation of the party and supervised policy implementation were in a strategic position to revise and modify his guidelines. (Chang, 1975:153)

Thus by 1964, Mao discovered that the Socialist Education Movement and related campaigns were ineffective because they were not carried out faithfully by the party cadres. Mao felt a deep sense of betrayal and unhappiness when he realised that the whole party machine had already slipped out of his control and was in the hands of Liu and Deng. To regain control of the Socialist Education Movement and to ensure that his ideas were carried out, he needed a power base outside the party apparatus and for this, he relied on his demigod image among the Chinese masses and also turned to the People's Liberation Army (PLA) which under Lin Biao stood alone in the early 1960s as the foremost Maoist revolutionary organisation (Tai, 1972:12).

By late 1965, Mao began to press his case. The first stage of the Cultural Revolution was launched at a Working Conference of the Central Committee in September 1965. It was decided during

this meeting to form a Cultural Revolution Group comprising five high party officials. The group was led by Peng Zhen, Politburo member and the Mayor of Beijing. Mao then left Beijing in November 1965 for the Yangtse Valley and South China, where he spent the next six months with some of his closest followers observing developments in Beijing and planning his next move.

Mao was by now fully convinced that the CCP was completely out of his control. It was at this point that he decided to begin his comprehensive purge of the entire party apparatus. The resistance of the party organisation made it necessary for him to escalate this conflict. Knowing that the central party apparatus and the Beijing Party machine were in the hands of his opponents, Mao was compelled to turn to the Shanghai Party Committee for a base to launch his attacks.

The first salvo came in November 1965 with the publication of an article written by Mao's supporters, Yao Wenyuan, then the editor-in-chief of the Shanghai branch of the Liberation Army Daily. The article attacked Wu Han, the Deputy Mayor of Beijing for his Beijing Opera on "Hai Rui Dismissed from Office". Wu Han was one of the leading critics of Mao who had used the above opera to criticise Mao on what he seen as unjust sacking of Marshal Peng Dehuai in 1959.

The attack on Wu Han led to a direct conflict between Mao and Peng Zhen, who as Head of the Cultural Revolution Group tried to restrict the purge to one of criticism and discussion only. The episode concerning Wu Han once again demonstrated to Mao that

despite his persistent efforts, he was unable to enforce his will to have Wu Han purged when party leaders who disagreed with him controlled the party machine. Although Peng Zhen did not oppose Mao openly, the tactics he used were those of subterfuge, obstruction and passive resistance. When repeatedly pressed by Mao to repudiate Wu Han openly, Peng went along outwardly, but in fact he shifted the basic orientation of the attack and used different ploys to shield Wu Han from political criticism. Peng's efforts at diversion culminated in the "Outline Report on the Current Academic Discussion" that attempted to divert the work of the Cultural Revolution Group from the political direction intended by Mao into historical and aesthetic channels. With the support of Liu and Deng, this "Outline Report" was approved in a Politburo Standing Committee Session chaired by Liu on 5 February 1966 and issued to the party organisation as the guideline for the Cultural Revolution (Chang, 1975:164).

With the issue of this "Outline Report", the stage was set for an open showdown. Mao himself convened a session of the Standing Committee of the Politburo in Hangzhou from 17 to 20 March 1966, where he sharply criticised the "Outline Report" and denounced Peng Zhen for undermining the Cultural Revolution. This completed the split in the leadership group. On the one hand, in Beijing, were Liu and the majority of the party machine supporting Peng in preventing the purge of critical intellectuals. On the other hand, in Shanghai and Hangzhou, Mao and Lin Biao supported by the People's Liberation Army (PLA) and the Federation of Trade Unions called on the masses to attack

those party cadres taking the revisionist line (Domes, 1973:156).

After some intense struggles, Peng Zhen was finally purged during the absence of Liu. Peng Zhen was considered as too soft on the party intellectuals and bureaucrats. A new Central Committee Cultural Revolution Group was formed with Chen Boda as the Head. Tao Chu and Kang Sheng functioned as advisers and Mao's wife, Jiang Qing was first deputy head.

With the new Cultural Revolution Group under the control of the Maoists, the Cultural Revolution came into full play and was broadened to an open mass mobilisation campaign with more purges and attacks on intellectuals, the party and government bureaucrats. Students and youths were organised into units known as the Red Guards. Under the guidance of the Cultural Revolution Group and the PLA many Red Guards were sent down to various areas to carry out the Revolution.

With the help of the Red Guards, Mao began to attack party leadership at both the provincial and regional levels. However, these people holding real power were able to put up highly effective resistances. They formed their own Working Teams to ward off attempts by the revolutionaries to seize power. The resistance put up by the party organisation was one of self-protection and survival. But it was also true that these Working Teams enjoyed genuine authority because of long obedience to the orders of the party organisation (Tang, 1971:196-7). There were thus widespread clashes and chaos. Mao had no choice but to turn more and more to the PLA. By early 1967, it was clear that

without the direct intervention of the PLA, the seizures of power by the revolutionary masses would not survive.

Though the basis of Mao's power, the PLA was a conservative force in the Maoist coalition, frequently resisting the more extreme measures undertaken by the Red Guards. Thus when the PLA began to move towards preserving law and order and limiting the extent of the political purge, clashes between the Red Guards and the PLA in the provinces began. Armed clashes across the country grew, with the Red Guards looting and destroying as they fought among themselves, and against the Army for political leverage. With widespread chaos and violence growing, Mao had to call for a return to moderation and gave the Army a free hand in restraining by force, if necessary, the fanaticism of the Red Guards (Tang, 1971:198).

By late 1968, there was a trend towards restoration of order and authority. This coincided with a period of growing tensions with the Soviet Union, especially at the Sino-Soviet border. Worried that continued internal discord would invite Soviet's invasion, Mao initiated a return to law and order. Some party cadres were rehabilitated in order to use their administrative skills to overcome the anarchy that had been created. The Red Guards were disbanded and told to go back either to schools or back to factories to reactivate the economy (Bridgham, 1971:124). However, by now, the damage to the polity, the economy and the social fabric was done. The immediate consequences of the Cultural Revolution was the destruction of the party

organisation, disruption of the functioning of the government bureaus and serious damage to authority. Economic production was adversely affected during the initial phase of the Cultural Revolution, when the Red Guards were rampant but it resumed in the later phases of the Cultural Revolution. However, nothing was more difficult than rebuilding a new set of stable political relationships in the aftermath of the Cultural Revolution (Tang, 1971:202).

The silence of intellectual dissent affected the morale and efficiency of the Chinese scientific community and technical experts. The educational system in most parts of the country were chaotic. Many schools were closed for about two years during the active phase of the Cultural Revolution when Red Guards were actively involved in the seizures of power. The change in the curriculum and the abolition of the examination system resulted in low academic quality which in turn impeded scientific and technological development.

Public morale and confidence in the Communist regime were impaired. The Cultural Revolution left behind a legacy of local animosities, feuds and vendettas. The entire society was embittered, exhausted and alienated. The picture was so desperate that even the old guard leaders recognised that political survival required drastic action. Thus the post-Mao leaders embarked on a series of reforms designed to raise the abysmally low standard of living, to open safety valves for mass dissatisfaction and gradually to restore popular confidence in the ruling Communist Party again. As aptly put by Zhao Ziyang in

his report to the Thirteenth National Party Congress, the present leadership believes that "reform is the only process through which China can be revitalised". The legitimacy of the post-Mao leadership thus depends on the success of the reform programmes that they have implemented since 1978, in raising the standard of living of the people.

CHAPTER ONE: REFERENCES

1. Frederica M Bunge China: A Country Study (Washington DC: Ripp-Sup Shinn (ed) American University Press, 1981)
2. Immanuel Hsu The Rise Of Modern China, 2nd Edition,
(Hong Kong: Oxford University Press, 1975)
3. Wang Gungwu China And The World Since 1949: The
Impact Of Independence, Modernity And
Revolution (London: MacMillan Press, 1977)
4. A Doak Barnett Uncertain Passage: China's Transition To
The Post-Mao Era (Washington D.C:
Brookings Institution, 1974)
5. John & Elsie China's Socialist Revolution (Great
Collier Britain, 1973)
6. Parris Chang Power and Policy in China (London:
Pennsylvania State University Press, 1975)
7. Benjamin Schwartz "Modernisation and the Maoist Vision -
Some Reflections on Chinese Communist
Goals" in Benjamin Schwartz, ed.,
Communism and China: Ideology In Flux
(Cambridge, Massachusetts: Harvard
University Press, 1968)
8. US Congress People's Republic of China: An Economic
Joint Economic Assessment, A Compendium of Papers
Committee submitted to the Joint Economic Committee
18 May 1972 (Washington DC: Government
Publishing House)
9. China: A Reassessment of the Economy,
10 July 1975
10. Roger Howard Mao Tse-tung and the Chinese People
(London: George Allen & Unwin Ltd, 1977)
11. Lucian Pye China: An Introduction, 3rd Edition,
(Boston: Little Brown & Co, 1984)
12. Gargi & VP Dutt China's Cultural Revolution (London:
Asia Publishing House, 1970)
13. Benedict Stavis China's Political Reforms: An Interim
Report (New York: Praeger, 1988)
14. Henry Schwartz "Leadership and Modernisation in Communist
China" in Joseph Kitagawa, ed.,
Understanding Modern China (Chicago:
Quadrangle Books, 1969), pp 94-119

15. William Hollister "Capital Formation in Communist China" in *China Quarterly*, No. 17, January-March 1964
16. Simon Leys The Chairman's New Clothes: Mao and the Cultural Revolution (London: Allison & Bushy, 1981)
17. Eric Chou Mao Tse Tung: The Man And The Myth (New York: Stein & Day, 1980)
18. Tai Sung An Mao Tse-tung's Cultural Revolution (USA: Pegasus, 1972)
19. Jurgen Domes
(translated by Rudger Machetzki) The Internal Politics of China, 1949-1972 (London: C Hurst & Company, 1973)
20. Tang Tsou "The Cultural Revolution and the Chinese Political System" in Richard Baum & Louise Bennett, ed., *China in Ferment: Perspectives on the Cultural Revolution*, (New Jersey: Prentice Hall, 1971), pp 191-204
21. Philip Bridgham "Mao's Cultural Revolution: Origins and Development" in Richard Baum & Louise Bennett, ed., *China in Ferment: Perspectives on the Cultural Revolution* (New Jersey: Prentice-Hall, 1971), pp 107-120

CHAPTER TWO

MODERNISATION PROGRAMMES OF CHINA (1978-1988)

2.1: INTRODUCTION

Post-Mao economic programmes represented an evolutionary process which began with their advocates' full rejection of the Maoist model of development to which they had been objecting since the 1950s. Following from the line of argument in Chapter One, it is possible for us to see the modernisation policies implemented during the last ten years (1978-88) as a temporary triumph of the group of leaders advocating a particular model for the modernisation of China. That conflicts still exist over the exact timing, scope, speed and tactics of the development strategy and the power struggle that underlies these policy differences can be seen in the various retreats (such as the campaigns against bourgeois liberalism in 1980-81, against spiritual pollution in 1983 and against "unhealthy tendencies" in 1986) and consolidation advocated in the process of the modernisation.

However, the policies adopted in the past ten years also represent a far more radical departure than those implemented during Mao's era. The developmental strategy became far more flexible than anything that the Chinese Communists had ever attempted. The appraisal of the consequences of the Great Leap Forward and the legacy of the Cultural Revolution led present leaders to depart sharply from Mao's views on the way to achieve modernisation. The problems that the post-Mao leadership

inherited from the Maoist era were as follows :

1. A lag in the nation's agricultural output in relation to its growing needs. Basically an agricultural country, China's economic performance depends largely on how well the agricultural sector performs.
2. Failure to achieve any significant increase in the productivity of industrial labour. Although China achieved an average annual growth rate of 4.4% at 1980 constant price from the period from 1953-76, this was due to high domestic capital investment and growth of the labour force, with productivity increases accounting for a very small share of the total growth. Given such high rates of domestic investment in both capital and labour, the Chinese economy should have grown much faster. But it did not and was actually operating below its actual potential. Post-Mao leaders recognised that it would be difficult to continue to increase productivity simply through adding labour and capital.
3. Widespread unemployment and underemployment.
4. Low average standard of living. Although growth, especially in the industrial sector, was sustained even during the tumultuous period of the Cultural Revolution, real per capita income grew only from \$102 Yuan in 1952 to \$252 Yuan in 1978. Many ordinary Chinese had become increasingly impatient with the lack of improvement in their living standard.

5. Inefficient use of capital due not only to political disruptions, but to inefficiencies in planning and management. The Chinese economy under the rigid central planning system was grossly inefficient.

6. The radicals' policies on education, research and intellectual development between the mid-1960s to early 1970s resulted in a loss of a whole generation of trained scientific and technological personnel. The research establishment was unable to keep up with the accelerating worldwide pace of technological change (Barnett, 1981:27-33).

Recognition of these problems convinced post-Mao leaders that to speed up economic growth and to raise the standard of living of its population, major changes in policy and in the structure of the country's economic system were essential. More importantly, the legitimacy of the CCP would increasingly depend on its ability to produce concrete results in improving the material standard of living of the people.

In general, all post-Mao leaders agreed that the Chinese economy had to be modernised. The major impetus for this modernisation had to come from the technological upgrading of existing enterprises. Improvement in the quality of output was critical. The planning system had to move away from a system where the only criteria then was the gross value of output. The market should supplement the state plan in the allocation of

commodities. All also agreed that productivity had to be increased, and that workers had to be rewarded according to their labour. Responsibility systems were needed both in the urban industries and in the countryside. Agriculture and light industries should receive higher priority. Capital construction had to be controlled. China should open itself to the international economy, and Western science and technology should be imported to help speed up modernisation. Scientists, engineers, technical experts and other professionals should play a larger role (Bachman, 1986:319).

Ever since the fall of Hua Guofeng in mid-1981, cleavages within the reform coalition led by Deng Xiaoping widened. Differences between market advocates (represented by Zhao Ziyang and Hu Yaobang) and central planners (represented by Chen Yun) concerned the degree to which necessary changes should be implemented. Chen Yun, for instance appeared to be more cautious in opening China to the West because of the impending influences. He also placed more emphasis on central planning than on the market, and he viewed the maintenance of a balanced state budget as of utmost importance. In fact, Chen would rely on the three balances to guide the economy: a balanced budget; balance between supply and demand; and a corresponding balance between bank loans and their repayment. With regards to changes in the political arena, Chen's faction was less willing to experiment with wide-scale political reforms to accompany the economic changes.

On the other hand, Zhao Ziyang was less cautious about involving China in the international economy. He was also more

willing to let market forces play a greater role in regulating the economy. He relied on economic devices and wanted the self-interests of the producers and consumers to guide the economy. Thus he was more willing to tolerate budget deficits and some inflation in the process of pushing the economy forward. The group led by Hu Yaobang and Zhao Ziyang was also more tolerant of political dissent, and they viewed political reforms as necessary for the success of economic reforms (Bachman, 1986:311-318).

Undoubtedly, there were also zigs and zags in the course of modernisation in the decade under consideration, though they were on a much smaller scale compared to those during Mao's era. In periods of economic expansion, the market advocates would prevail, while during periods of economic contraction or of serious economic problems, such as spiralling inflation, the views of the central planners would prevail. Thus the economic contractions of 1980-81, 1983 and 1985-86 were accompanied by ideological campaigns against "bourgeois liberalisation", "spiritual pollution" and "unhealthy tendencies" respectively (Dittmer, 1989:12-3).

Deng's policies in the last decade from 1978 to 1988 were a definite departure from Mao's era. The general strategy adopted was to restore order and discipline in the economy, the polity and the society.

A mixed economy and consumerism were the predominant features of Deng's revolution. In general, several key themes run through the changes in different areas of policy: the primacy of

economic goals, notably efficiency, productivity, growth and enhanced consumption; a concerted intention to decrease state control, to free the economy from the trammels of bureaucracy by expanding the use of market economic levers, as opposed to administrative methods; an increase in economic links with the West and Japan, both in trade and capital flows, leading to the establishment of joint ventures and special export zones; a relaxation of political and ideological controls and an allowance of greater intellectual and cultural expression and more freedom for individual political dissent; and lastly, an abandonment or downgrading of previous Maoist values, notably those of redistribution, mass mobilisation, emphasis on political "correctness" over technical expertise and professionalism, collective effort and local and national self-reliance (Gray & White, 1982:2).

2.2: CHANGES IN THE DOMESTIC ECONOMIC SPHERE

The concept of Four Modernisation, which referred to the modernisation of Agriculture, Industry, Science & Technology and National Defence, was first suggested by Premier Zhou Enlai way back in 1964 during the Third National People's Congress in December 1964. But before he could implement his ideas, the whole of China was plunged into the turmoil of the Cultural Revolution, followed by the Lin Biao affair. It was not until the Fourth National People's Congress in 1975 that Zhou again called for the implementation of the Four Modernisation Programmes. He expressed

the hope that overall modernisation in each of these sectors would be achieved by the end of the century. However, at this time, Zhou was too ill to put all his plans into practice. It was Deng Xiaoping who helped him draft three major Documents which later became the blueprints of the Four Modernisation. These three Documents were :

1. A General Programme for Work in the Party and the Nation;
2. A Summary of Directives for Work in the Academy of Science; and
3. Certain Problems in Improving Development of Industries

Following the death of Zhou in January 1976, Deng was purged and the plans were not carried out. For the whole year of 1976, the plans did not make any headway because Beijing was embroiled in the political struggle for succession. Hua Guofeng was finally named as Mao Zedong's successor following the death of the latter in September 1976.

Hua Guofeng was also interested in lodging the Four Modernisation Programme, but he wanted to promote modernisation in the spirit of revolutionary vigour, that is, he did not want to sacrifice Mao's ideas and principles when implementing the Four Modernisation Programme. Hua's legitimacy as the leader was partly based on the fact that he was Mao's "chosen man". Therefore, it was imperative for Hua to uphold Mao's ideas. The goal of the Four Modernisation was formally written into the Constitution of the Chinese Communist Party (CCP) which was passed at the Eleventh National Party's Congress on 18 August

1977, and again incorporated into the new State Constitution of the People's Republic of China (PRC) which was passed at the Fifth National People's Congress on 5 March 1978.

In 1977, Deng was rehabilitated and put in charge of the modernisation programme. Deng was willing to strive for the goals of the Four Modernisation at a far greater cost to the Chinese revolution. Although promulgating his adherence to the four fundamental principles of upholding socialism; the dictatorship of the proletariat; leadership of the Chinese Communist Party and upholding Marxism-Leninism and Mao Zedong's thought, he was willing to sacrifice many of Mao's ideas for the sake of modernisation. As such, differences existed between Hua and Deng with regards to the specific approach toward modernisation.

On 12 August 1977 in his "Political Report to the Eleventh Party Congress", Hua Guofeng announced that the mission for the last quarter of the twentieth century was "to bring into full play all positive factors inside and outside the Party, at home and abroad and make China a great, powerful and modern socialist country before the end of the century" (Beijing Review, Vol. 20, No. 35, 26/8/77). This statement officially launched the country on the Four Modernisation Programmes. A Ten-Year Modernisation Plan covering the years from 1976-1985 was revealed. By and large, this ten-year plan was the first plan by post-Mao leaders to put the Four Modernisation into practice. The thrust of this plan was to save agriculture, reinforce basic industries, strengthen the communications network and increase foreign trade. On top of that, the plan was meant to structure the economy.

However, the target set by this ten-year plan was too high and unrealistic. As a result, during the Third Plenum of the Eleventh Central Committee in December 1978, a programme designed by Deng and his supporters to readjust, restructure, consolidate and improve the national economy was announced. Seen as a victory for Deng's reform efforts, the general direction and nature of institutional and policy changes being proposed and adopted became clearer. The gist of the changes were as follows :

(1) Readjusting the Economy

The readjustment of the economy involved a conscientious move towards more detailed and balanced planning to bring about better coordination and the development of agriculture, light industry and heavy industry. It also included maintaining a proper ratio between accumulation and consumption, as well as rationalisation of investment projects on the basis of both direct and indirect economic costs and benefits. All these were aimed at bringing investment output and foreign trade targets more in line with a new set of growth priorities considered economically necessary.

(2) Restructuring the Economy

Economic restructuring involved primarily reforms towards a form of market socialism. Some of the changes recommended were : eliminating absolute egalitarianism; eliminating overlapping and

inefficient administrative organs; and giving greater autonomy to local authorities with respect to planning, capital construction, finance, acquisition of raw material and the conduct of foreign trade. The need to allow the lowest economic unit greater freedom to react to the plans they were given was recognised. In agriculture, this meant the production team was to be given more freedom in making its own production and distribution decisions. Private plots were allowed. Household sideline activities were encouraged.

In the industrial sector, piece rates and bonuses were used to stimulate production, and specialisation was encouraged. Groups of workers were encouraged to form their own cooperatives to produce and sell any commodities they like or to service the market when supplies were short.

In sum, the restructuring of the economy entailed increasing the role of market forces, and emphasizing profits and material incentives and local initiative in reaction to these forces.

(3) Consolidating the Economy

Changes towards consolidating the economy included the establishment of a system of clearly defined responsibility for everyone in the enterprise, and a system of specialisation of labour and coordination of economic activities across different enterprises to achieve greater economies of scale in production. Poorly managed enterprises were consolidated through reorganisation and merger.

(4) Improving the Economy

Economic improvement was aimed at raising the productivity and efficiency of the various sectors by promoting technological innovations, and by reducing input-output ratios throughout the economy through upgrading the vocational skills of cadres and workers and through better management. Learning science and technology and management technique from foreign countries and the development of foreign trade (in order to finance the import of foreign technology and equipment) were encouraged (Tung, 1982:27-29).

The retreat from the ambitious ten-year plan represented a triumph for Deng's faction in the power struggle. They began slowly to push through their development strategy. The above reforms advocated by Deng were endorsed at the Third Plenum of the Eleventh Central Committee in December 1978. To push forward his plan for economic modernisation and to consolidate his position in the party leadership Deng committed China to a number of plans and agreements with other countries; downgrade Mao's thoughts and place his own supporters in the key State, Party and the Military institutions.

Since the endorsement of Deng's policies during the Third Plenum of the Eleventh Central Committee in December 1978, Hua was pushed more and more into the background of the political leadership. The term Four Modernisation was replaced by emphasis

on economic reforms. It was envisaged that the emphasis of the party's work would be on economic development. Modernisation of Science and Technology would be carried out to serve the goals of economic modernisation, while military modernisation would only be possible after the country has achieved steady economic growth.

Following the endorsement of the above outline for economic reforms by the party, there was a gradual but steady series of changes including the creation of the Special Economic Zones (SEZs); streamlining the top-heavy economic bureaucracy; decentralising decision-making to rely more on professional managers and replacing fixed wages based on work points with wages based on profits. The accumulative impact of the changes was enormous and resulted in improved economic results each year. Tables 2.1 and 2.2 below show the increases in agricultural and industrial output in both absolute and relative terms. Table 2.1 reflects the total output of agriculture and industry in Yuan (RMB) at current prices, and Table 2.2 points to the significant rise in the indices of total output value of both agriculture and industry (at constant price) since 1980, taking 1952 as 100.

TABLE 2.1

TOTAL OUTPUT OF AGRICULTURE AND INDUSTRY

Rmb 100 million at current prices					
	Total output of agriculture and industry	Total agricultural output	Total industrial output	Of which:	
				Light industry	Heavy industry
1949	466	326	140	103	37
1960	2,094	457	1,637	547	1,090
1970	3,138	1,058	2,080	960	1,120
1975	4,467	1,343	3,124	1,376	1,748
1980	7,077	2,180	4,897	2,309	2,588
1981	7,580	2,460	5,120	2,637	2,483
1982	8,291	2,785	5,506	2,766	2,740
1983	9,211	3,123	6,088	2,954	3,134
1984	10,797	3,755	7,042	3,335	3,707

TABLE 2.2

INDICES OF TOTAL OUTPUT VALUE OF AGRICULTURE AND INDUSTRY (at constant prices)

1952=100					
	Total output value of agri- culture and industry	Total agricultural output value	Total industrial output value	Of which:	
				Light industry	Heavy industry
1949	56.3	67.4	40.8	46.6	30.3
1952	100.0	100.0	100.0	100.0	100.0
1960	279.3	96.4	535.7	269.7	1,035.8
1970	424.3	166.3	787.1	515.6	1,290.2
1975	616.2	202.1	1,218.8	748.4	2,093.8
1980	908.6	259.1	1,888.9	1,259.5	3,036.4
1981	950.4	276.2	1,966.3	1,437.1	2,893.7
1982	1,033.1	306.7	2,117.7	1,519.0	3,177.3
1983	1,138.5	336.1	2,340.1	1,651.2	3,571.3
1984	1,309.3	393.6	2,667.7	1,880.7	4,078.4

The economic changes were substantial enough to deserve the term "revolution". Robert Dernberger puts it succinctly :

Taken as a whole the post-Mao's leadership's programme of economic policies and reforms has become an across-the-board attempt to change the Chinese traditional development model. This involves a rejection of the Maoist radical economic principles in favour of those proposed by the right wing, the abandonment of Stalin's "big-push development strategy" in favour of balanced growth and consumerism and a modification of the Soviet-type economic system to incorporate significant elements of market socialism (Dernberger, 1984:138).

By 1988, the Chinese economy had evolved into a mixed economy. Though there was still a large element of central planning, there was also an expanding and increasingly important private sector. Managerial reforms were also introduced for government enterprises to enable them to function more effectively in a market economy.

A. RURAL REFORMS

One of the most far-reaching economic changes in the rural sector was the de-collectivisation of agriculture. Starting from 1978, the functions and importance of the Communes (especially as self-sufficient economic units) were slowly eroded. The "demise" of the communes was largely due to the introduction of the "system of responsibility" in agriculture production and other rural activities. Under this system, basic means of production, such as land, reservoirs and large farming equipment, still belong to the state or the collective. But the land is leased by contract to peasants or small groups, and they are allowed

privately to own farming tools and draft animals (Jan, 1986:397). More importantly, the responsibility system links the peasants' income directly to the task that is performed.

The responsibility system spread slowly and by 1982 the Chinese Government decided to abolish the People's Communes. According to the 1982 State Constitution of the PRC, the People's Commune formally ceased to exist as an integrated unit of self-government. Its political and administrative functions were transferred to the township and village bureaucracies, which in turn had already been integrated into the broader administrative hierarchy of the provincial bureaucracy. The village committees were replaced by the production brigades, and dealt essentially with community affairs and social services (Chossudovsky, 1986:46).

Initially a few popular systems of responsibility were adopted. These included :

(1) Contracting Output Quotas out to Work Groups (or linking output to the Group - Baochan dao Zuoyezu). Under this system, the production team divides its fields into strips and its forces into several work groups. The team then contracts a certain amount of land to each group. The team's management and the group then agree on the targetted output. The work groups are paid in work points, with bonuses and fines depending upon the output. The work points paid to the group are further divided among the members according to their personal labour contribution. The team

retains the authority for administering many aspects of farm production, including planning and the use of animals, machinery and fertiliser.

(2) **Contracting Specialised Fixed Tasks and Production Quota to individuals or groups.** In this system, the production teams contract specialised fixed jobs to individuals or groups and pay them in an agreed number of work points for an agreed amount of output. Used primarily for sideline production where special skills are required, such as fishery, forestry and animal husbandry, this system involves the signing of contracts with individuals, households or specialised work groups. Peasants receive a fixed number of work points for meeting the production quota and a bonus for surpassing it, comprising more work points, some of the surplus or all of it.

(3) **Household Contract System.** There are two types of Household Contract: the "*Baochan daohu*" and the "*Baogan daohu*". The former occurs under unified team management and involves fixed investment, work points, output levels and unified accounting, though all the farmland is contracted to individual households for separate cultivation. The contracted part of the output goes to the production team for unified distribution among the members and the rest is either shared between the team and the "contractors" or granted to the latter as a bonus.

The "*Baogan daohu*" refers to households with total

responsibility; in other word it is actually private farming. Under this system, while the production team maintains collective ownership of the land, it divides the land and other means of production (such as farm tools) among individual households. By contract, the households pay the State Agricultural Tax and meet the minimal compulsory sales as well as the production teams' public accumulation and welfare funds. Apart from this, they may grow anything and handle all the rest of the surplus output in any way they want to. The production teams thus no longer practise unified accounting and income distribution among their members (unlike the Baochan). The household becomes the primary unit of accounting and accumulation (Zweig, 1983:882-884).

The Household Contract System in fact resembles tenant farming with the collective and the state as "landlord". Because the "rent" (State Agriculture Tax plus contribution to the collective and the tax implicit in the low-priced quota sales) was fixed, and because access to the higher prices from above quota and free market sales is achieved only with higher output, increased productivity brings the household a more than proportional increase in income. This system thus greatly motivates peasants to increase their productivity. This was especially so under the "total household responsibility system" (*Baogan daohu*).

Since the early 1980s, most of the countryside has adopted the Household Contract system. Along with the household

responsibility system, private plots have been greatly expanded. Restrictions on peasants' sideline activities have also been substantially eased. This has given rise to the so-called "specialised households", families that engaged in specialised sideline production or activities such as fishery, forestry, animal husbandry and transportation.

In early 1983, the Central Committee issued the first of two watershed directives labelled "Document No. One", which further ratified the development of the household responsibility system as the dominant mode of rural organisation. Document No. One of 1983 explicitly promoted the household responsibility system. It permitted individual farm households to hire labour, buy and own trucks and farm machinery, sell their surpluses of goods in free markets and transport goods long distances and across administrative boundaries to the market.

Document No. One of 1984, added several important provisions. It lengthened the contract to more than fifteen years with the possibility of transferring the land to their heirs, encouraged the concentration of land in the hands of more efficient producers (the so-called key households) by permitting lease-like arrangements between households and it promoted the free flow of peasant investment into various kinds of private and cooperative enterprises (Kallgren, 1985:104-105).

Both documents thus officially sanctioned the trend towards private plots and specialisation among peasant households. Another significant change came in 1985 when the system of

mandatory plan quotas for such agricultural commodities as grain and cotton - whereby the state was obliged to purchase all amounts offered to it for sale (including those above quota) - was replaced by a system of contract procurement.

With these new policies came an expansion of peasant marketing. Rural fairs were revived in 1979. Free markets have since then been greatly expanded. Prices in these markets are determined by supply and demand. More recently, new rural banks have also been created to generate rural credit, so that budding peasant entrepreneurs can invest in new seed, fertiliser and machinery. In summary, within the first ten years of rule by post-Mao leaders, the collective system - a predominant feature of the agricultural sector for over two decades - was largely replaced by the household responsibility system, which established a closer link between effort and reward for individual farmers. Households were permitted to lease land on a long-term basis and to dispose freely of any production in excess of the state quota. These rural reforms which were accompanied by increases in procurement prices had a significant impact on agricultural production.

Although the responsibility system did provide economic incentives for the peasants to work harder and has enabled China to increase agricultural production as well as improve the standard of living of the peasants to some degree, it also created many new problems. Some of these include :

- (1) Increasing gaps in income. The emergence of some

prosperous peasants with income many times that of their fellow peasants caused jealousy and resentment. Poor peasants resented this prosperity, and the cadres often extracted money from the rich ones by a variety of illegal methods. This discouraged the more capable peasants from working hard. They also worried about the heavy taxes and the abuse of the cadres.

(2) **Small and fragmented farms.** China's arable land per capita is now about one "mu" (one-sixth of an acre). A family of six would be assigned about one acre of farmland. Due to the different quality of the land in each team, the practice was to draw lots to divide up the land of the team. Because of different fertility, land was drawn into four different parcels by the team. Each household would get a portion of land in each of the four parcels. This resulted in the creation of small and fragmented farms (for example, a household of four may end up with a total of less than one acre of land in four different locations). This situation wasted the peasants' time and labour and caused disputes among peasants over farm boundaries and other related matters. Under this condition, China also cannot realistically expect the peasants to modernise their farming.

(3) **Shrinkage of grain growing acreage.** The grain cultivation area has been reduced due to development of industry, transportation, housing, etc. But the peasants' preference for cash crops was one of the main reasons for

the reduction of grain cultivation area. The reduction of arable land due to non-agricultural development and the decrease of grain cultivation limit the increase of China's grain production unless China can modernise its farming methods on a nationwide basis. This plus the more than 1% annual population growth would mean that per capita grain allocation cannot improve appreciably in the near future.

(4) **Lack of planning and coordination of economic development in rural areas.** The peasants were motivated by profits in their production. However, they had no confidence in the longevity of the responsibility system. They feared the change of the system anytime. Therefore they had no interest in improving the quality of the land or long-term conservation work. They were primarily interested in short term profits.

The industrial sector was also not geared to assist the changed needs of the agricultural sector. For instance, because the responsibility system was based on households with small farms, there was more need for small farming tools and less need for the larger farming machines. But many industrial enterprises were still manufacturing the traditional larger farming machines. The shortage of small and medium-sized farming tools became a serious problem in the villages.

(5) **Barriers to free flow of goods and services.** There were several outlets for peasants to sell their surplus products,

such as to the state purchasing programme, to the supply and marketing cooperative or in the free markets. However, there were also many barriers to the free-flow of goods and services. In many areas, movement between counties and provinces was difficult because of restrictions imposed by the state, and also because of problems of storage space, transportation, grain management, corruption and theft.

(6) **Inadequate government assistance to peasants concerning technical problems and market research, supply of materials such as pesticides and fertilisers.** Because of shortages, many officials exploited the peasants by demanding bribes. Also many peasants and collectives engaged in specialised enterprises without adequate market research. The result was that they could not sell their products even when they had successfully made them.

(7) **Insufficient investment in the agricultural sector by the government.** Due to the need for modernisation in non-agricultural projects, government investment in agriculture not only failed to increase, but actually decreased in some cases (Jan, 1986:401-406).

B. INDUSTRIAL REFORMS

After 1976 industrial policy passed through several distinct phases each involving an intensification of the process of change.

The first phase lasted from October 1976 until the Fifth National People's Congress in February 1978. During that time, the framework for industrial policy was provided by the Four Modernisation and by Mao's article "On the Ten Major Relationships", officially published for the first time in December 1976. In practical terms, the industrial policies outlined by Deng in September 1975 began to be introduced. These included strengthening management and managerial rules, restoring the status of technical experts, providing clear directives for realising the eight planning targets (output volume, product type, quality, consumption of materials and fuel, labour productivity, costs, profits and use of liquid capital), greater regional coordination leading to greater specialisation by production units, firmer central planning and tighter control of investment policy, and increased importation of foreign technology. The emphasis on improving productivity and quality was backed by a call for greater use of material incentives (Watson, 1982:91).

Although the industrial reforms were not as sweeping as those in agriculture, as early as January 1979, the main features of the emerging policies were very clear. Deng's famous saying that the colour of a cat did not matter so long as it could catch mice, (that is economic results are what matter) was revived. The growth of a mixed economy with complementarity between planning and market competition was promoted as a way of overcoming bureaucratic practices and coordinating the activities of China's industrial enterprises, and the numerous other economic units.

Urban reforms covered enterprises management, taxation, finance, pricing, employment, wages and foreign and domestic trade. More specifically, the following reforms have been gradually introduced since 1978 :

(1) Expansion of Enterprises' Autonomy

In the past, the state assigned production plans to enterprises in the form of a mandate. It also allocated raw material, equipment and personnel through the unified distribution system and it purchased and distributed all manufactured products. In return, all profits made by the enterprises were returned to the state. Conversely, all losses incurred were borne by the state.

In line with the overall reform policies, enterprises were granted greater freedom from state administration hopefully in order to achieve higher productivity and efficiency. Enterprises were given more decision-making power with respect to production planning, sales and the handling of finance. Under the new system, enterprises must fulfil the production targets set forth in the state plan. After fulfilling state quotas, however, they were free to decide how to utilise their extra capacity. More freedom was also given to enterprises in designing their own products. Increasing proportions of their products could be sold directly in the open market. The enterprise was also permitted to retain a certain percentage of total profits and it has the discretion to use these funds either for distribution as bonuses

or for expansion of production facilities. And in 1983, enterprises were beginning to hire some of their workers directly. They were also given limited freedom to discipline and even to discharge workers (Reynolds. 1984:78-80).

(2) Emphasis on "Expertness"

The importance and roles of professional managers and technical expertise in enterprise management were emphasized. Since 1978, the regime has stressed that professional managers using the expertise of all their technical specialists should make the key decisions relating to production. There was a renewed emphasis on skills, expertise and competence above ideological purity and political awareness. Personnel with higher educational and technical training were promoted faster.

Revolutionary Committees set up in factories and enterprises during the Cultural Revolution period were abolished and their broad-based composition of cadres, technicians and workers were replaced by previous system of factory directors in charge of running the operations under the leadership of the Party Committee. The Party Committee looked after the political and ideological work while the actual day-to-day running of the enterprises was left to the director and his staff (Saich, 1982:138).

(3) Use of Material Incentives

The use of material incentives instead of moral incentives

has been sanctioned. Enterprise management has been urged to rely on material incentives and to develop strict systems of workplace discipline. The old seniority system was slowly replaced by a meritocratic system, in which workers were rewarded and promoted for better work and higher productivity. There was also a move away from guaranteed lifetime employment towards employment by merit (Riskin, 1987:342).

(4) Decentralisation of Economic Decisions

Another major reform was the decentralisation of economic decision-making to local authorities. Considerable authority over budgetary revenues and expenditures was handed down to the provinces and localities with a view of arousing their initiative by linking their expenditures to their revenues. Also the provinces, special municipalities and the Special Economic Zones were able, within certain limits, to sign contracts with foreign companies without getting Beijing's approval (Riskin, 1987:343).

(5) Other means of ownership

Since early 1979 the state has encouraged the development of alternative forms of ownership of the means of production. These include the establishment of collectively owned enterprises, joint ventures with foreign firms and also private enterprises. In the cities and towns, individuals and families opened tailor shops, restaurants and other private service or retail establishments, provided that they did not hire more than a certain number of workers.

(6) Consolidation of Enterprises and Specialisation in Industries

Following the guidelines on readjustment, restructuring, consolidation and improvement of China's economy, enterprises that consistently performed badly and lost money have been told to improve their performance or to close down. Some of the inefficient industries were closed down while some consolidated or merged with more successful ones. Subsidies to state enterprises failing to achieve profit were being cut off. The catchword now is efficiency, and to increase efficiency, the Chinese Government has also decided to establish specialised companies at both the national and regional levels. It was intended that these specialised companies would be freer from political interference. Their establishment reflected a new emphasis on the need for greater specialisation and division of labour throughout the economy in order to raise technical levels and operational efficiency.

(7) Changes in Financial Policy

As part of the reforms, enterprise profits, which previously had to be fully remitted to the state budget was subjected instead to income tax. At the same time, the funding of capital investments which used to be provided almost exclusively through budget appropriation, was progressively transferred to the banking system. The practice of funding all fixed and circulating costs free of charge was replaced by the use of repayable interest bearing loans from the banks. This move was aimed at the

waste in capital investment and the stockpiling of excessive inventories, both of which were exacerbated by the use of capital free of charge (Ma, 1983: 102-12).

With symbolic symmetry, all the above changes were capped at the Third Plenum of the Twelfth Central Committee on 20 October 1984 with the adoption of "A Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure" - a document committing China to a market-oriented economy and intended to do for the urban industries what the "responsibility system" had done for the rural economy. The Soviet type of centrally planned command-economy with its emphasis on collectivised egalitarianism, had been scrapped and the list of controlled commodities was to be curtailed. There would be freer trade for non-controlled products and more decisions on purchase, production and sales would be made by local managers. Enterprises would be taxed on their earnings rather than paying a designated sum to the state as in the past.

2.3: CHANGES IN FOREIGN ECONOMIC RELATIONS-THE OPEN DOOR POLICY

China's open door policy has been an important component of the new approach towards achieving the goals of modernisation. The post-Mao leaders believed that the opening up of China's door to the outside world, especially the West and other developed countries, was necessary to speed up economic growth and boost up advancement in science and technology. Thus starting from 1978,

Chinese activities in the world market began to expand significantly. The Chinese attitude towards foreign economic relations also changed.

The policies of new and increased external economic relations, what is known as the Open-door policy, were significant in both qualitative and quantitative terms. Beijing's "great leap outward" involved an increase in trade, rising imports of foreign technology, increased solicitation of foreign loans and credits, and assistance from international organisations. In essence, the most significant aspect of Chinese foreign economic relations since the late 1970s was the reversal from the policy of self-sufficiency (with minimal foreign trade activities) to one of expanding trade and increasing economic interdependence in the world market. Zhao Ziyang's report to the Thirteenth National Party Congress summed up the development strategy:

The three main tasks were to give first priority to the expansion of scientific, technological and educational undertakings so as to push forward economic development through advances in science, technology and improved quality of the workforce; to maintain a rough balance between total demand and total supply and rationally adjust and reform the structure of production; and to open wider to the outside world and constantly expand economic and technological exchange and cooperation with other countries (Asian Recorder, Vol.XXXIII, No.49, 3-9 December, 1987:19763-4).

Thus, besides implementing changes in the domestic economy, China has also designed various policies to attract foreign investment and introduced reforms in the operation and management of foreign trade. Not only has foreign trade soared after a decade of virtual stagnation, but more significantly, foreign

capital has been solicited, tourism promoted and a remarkable series of institutional changes made to create an environment attractive to foreign investors (Riskin, 1987:316).

In essence, the following policies designed to facilitate the conduct of foreign trade and to attract foreign investments and capital have been implemented since 1978:

(1) Establishment of Special Economic Zones (SEZs)

In October 1977, Foreign Trade Minister, Li Qiang announced China's decision to establish Special Economic Zones (SEZs), that is, certain designated regions to expand China's trade with foreign countries. The SEZs represent an important component of the open-door policy. Prior to their actual establishment, it was announced that three special municipalities (Beijing, Tianjin and Shanghai) and the two south coast provinces, Fujian and Guangdong, were to be granted special status in the development of foreign trade on a highly autonomous basis (China Trader, No.3&4 Dec,1980). Shanghai, Guangdong and Fujian are notable since they are the homes of many overseas Chinese all over the world. Thus, it was not surprising that Fujian and Guangdong were the first two provinces in which the Special Economic Zones have been established. Officially, the SEZs were to have the following functions :

(a) to serve as bridges for introducing foreign capital, advanced technology and equipment. It was hoped that in the process of production and circulation, and in the joint

ventures with Chinese and foreign investments, the Chinese might learn the latest technique and scientific methods of management;

(b) to promote competition between regions and between traders within certain trades, all to the larger end of developing the economy and expediting the production and efficient management of China's enterprises;

(c) to earn foreign exchange by promoting export production and to filter part of the foreign capital, technology and equipment through the SEZs to other regions;

(d) to serve as experimental units in economic structural reforms and as schools for learning the law of value and the regulation of production according to market demands; and

(e) to create employment (Stoltenberg: 1984:639).

To fulfil the above functions, the SEZs were to have the special characteristics. First, their economy would be based primarily on the free market system. Secondly, foreign investments would be actively promoted to become the dominant source of investment within the zones, and finally, the zones would constitute an open system of high-technology and management skills.

Four SEZs - Shenzhen, Shantou and Zhuhai in Guangdong province and Xiamen in Fujian province - were first established in 1979. The location of the SEZs paid particular attention to the proximity of international industrial and commercial cities

and financial centres. In other words, Shenzhen, Zhuhai and Xiamen have been carefully chosen by the Central Government to take advantage of, as well as, to meet the challenges of HongKong, Macau and Taiwan respectively. The four SEZs are also all located along the South China coast, not only to have easy access to existing port facilities, but also because of their close proximity to HongKong, Macau and Taiwan. In addition, Xiamen and Shantou are connected to South East Asia ethnically, being the native towns of many overseas Chinese in this region. Such geographical and ethnic ties offer the SEZs an edge in terms of foreign relations, especially where investments of overseas Chinese are concerned.

It is also possible that though the SEZs are mainly an economic component of the open door policy, they may have been a factor in the issue of reunification. The increasing freedom granted to the SEZs is in preparation for the ultimate return of HongKong and Macau and reunification with Taiwan. The Chinese authorities hoped that through the success of the SEZs, it would convince the people of HongKong and Taiwan that the framework of "one country, two systems" could work (Leung, 1986:9-10).

(2) Opening up of Fourteen Coastal cities and Hainan Island

Of the four SEZs, Shenzhen was the first to be established and has developed the fastest. In many ways, this zone has served as a pace-setter for China's open-door approach to economic development. As a further step towards the opening to the world,

Hainan Island and fourteen coastal cities were opened up in early 1984. Hainan Island was granted quasi-SEZ status and the fourteen coastal cities were designated "economic open cities". In order to increase the economic and technological exchange with foreign countries and to create better conditions for investments, the Chinese Government has decided to enforce the following major policies and measures in these cities :

(a) The fourteen cities have greater authority to approve projects financed by foreign capital. They have the authority to approve joint venture projects involving investments between US\$5-10 million (Shanghai and Tianjin have a limit of US\$30 million). This is somewhat less than the SEZs whose limits are US\$30 million for light industries and US\$50 million for heavy industries.

(b) Until 1990, the import of key equipment and other necessary materials which cannot be readily obtained from China are exempted from customs duties, taxes on imported products and value-added taxes.

(c) Investments involving technology- and knowledge-intensive production, energy and communications or projects involving an investment of more than US\$30 million pay only 15% income tax (Beijing Review, Vol. 27, No. 50, 10/12/84).

According to Gu Mu, a State Councillor, the major differences between the SEZs and the fourteen coastal cities were:

(a) An SEZ is a comprehensive economic development area.

Thus, foreign investors can invest in industry, agriculture, animal husbandry, tourism, housing, and any other ventures of common interest, whereas in the coastal cities, the investors operate primarily productive enterprises and research institutes, developing new technologies, new products and new industries.

(b) In the SEZs, all joint ventures, cooperative enterprises or wholly owned foreign enterprises, productive or unproductive pay only 15% income tax, whereas in the coastal cities, only productive enterprises enjoy this preferential tax treatment. Also, in the SEZs, imported capital goods, consumer goods and a few other commodities, are exempted from custom duties whereas in the coastal cities, only imported goods are exempted from custom duties (Beijing Review, Vol.27 No.50 10/12/84).

(3) Decentralisation of Foreign Trade activities

China began decentralising the management of foreign trade in 1978. Under the new conditions of greatly increased trade, the old system in which all decisions had to go through sectoral Foreign Trade Corporations under the Ministry of Foreign Trade proved to be inefficient. Authority to engage in foreign transactions was therefore given to various other ministries and to local governments. For instance, the provinces of Guangdong, Fujian and the three cities of Shanghai, Beijing and Tianjin were granted greater autonomy in the conduct of foreign trade. In an

attempt to bring domestic customers and suppliers into direct contact with their foreign companies, further devolution took place so that now dozens of corporations, enterprises and factories are authorized to conduct business with foreigners (Clarke, 1984:8).

(4) New forms of Economic Cooperation

Besides importing and exporting, China has engaged in new forms of economic cooperation and exchange with other countries. The principal forms are as follows:

(a) **Joint Ventures.** In July 1979, the Fourth National People's Congress enacted a law permitting the setting up of enterprises to be owned jointly by Chinese and foreign capital. When the Joint Venture Law was first being discussed, it was understood that foreign holdings would not be greater than 49% and that gradually enterprises would become fully owned by the Chinese state. However, since its promulgation, the law has actually allowed for a minimum of 25% foreign investment and a maximum of 99%. It is now even acknowledged that 100% foreign ownership is acceptable. China has encouraged the formation of joint ventures with foreign partners, especially for large industrial projects involving sophisticated technologies in key sectors. Favourable tax, profit repatriation and other incentives are stipulated in the Joint Venture Law of such ventures (Brehm, 1983:16).

(b) **Compensatory Trade.** This referred to an economic arrangement whereby in return for contributions of capital, technological know-how, or equipment, the foreign investor would be paid in the form of goods rather than foreign exchange. This could be in the form either of direct products or indirect products. In compensatory trade, arrangements range from oil exploration and coal mining to the assembly of calculators, cassette recorders and televisions. China agreed to allow the foreign investors to export all of the output for an agreed period of time, after which the factory and equipment revert to Chinese ownership and control (China Trader, March 1980).

(c) **Cooperative Enterprises or Joint Production.** This could take the form of technology transfers in which the foreign partner supplies the equipment, technological know-how and personnel to train Chinese workers to manufacture complete sets of equipment or parts. Other forms of economic cooperation include assembly and the processing of materials.

(d) **Licensing.** In order to gain access to foreign technology, China indicated an interest in licensing arrangements for the production of locomotive parts and of microelectronics, telecommunications, food-processing and construction equipment. Under this type of arrangement, the licensor receives a lump-sum royalty payment of around 10-20% upon signing the contract. Depending on the situation,

the balance is then paid before or after start-up of the plant.

(5) China's participation in various International Economic Bodies

China has begun to participate in various international economic bodies, such as the International Monetary Funds (IMF), the World Bank and the Food and Agriculture Organisation. United Nations' assistance was used in preparing the national population census in 1982. Loans have also been taken from the World Bank (Ross, 1985:48) and from Japan for large-scale energy and transport development programmes. China has thus abandoned its former policy of rejecting foreign aid and has entered into long-medium- and short-term loans with governments, international and private financial institutions.

(6) Export of Labour and Foreign Investments

China has also begun engaging in undertakings abroad, earning foreign exchange from the export of labour and services and learning relevant technologies by investing in foreign enterprises. From 1979-83, for instance, construction and other labour-oriented projects were carried out in fifty-seven countries and regions involving a contracted value of \$2.2 billion. Over forty contracting corporations in China sent out labour for construction and other services in a wide range of activities from building harbours, railways and hotels to

agriculture and fishing (Cao, 1983:27). Most such activities have been in Third World countries, especially oil-exporting Middle Eastern countries with foreign exchange to spend.

(7) Fairs & Trade Exhibitions

Beginning in 1979, the Guangdong Commodities Trade Fairs, in which representatives of Chinese manufacturing industries listened to consumers' demands and opinions, were held on a semi-annual basis. In addition to this semi-annual Guangdong Trade Fair, other fairs and trade exhibitions designed to acquaint foreign buyers with Chinese products were held in major cities in China and throughout the world.

2.4: CHANGES IN THE AREAS OF SCIENCE AND TECHNOLOGY

Although since 1978 the emphasis has been on economic modernisation, other areas of modernisation have also been carried out, albeit at a slower pace, and without as much fanfare as those in the economic arena.

One of the major facets of China's Four Modernisation Programme has been an increased willingness to purchase foreign technologies and acquire foreign technical assistance for advancement in science and technology. The latter is needed to support economic development and military modernisation.

Although the use of foreign technology is not new in China,

the present receptiveness to foreign technology is in some respects unique. Not since it came to power in 1949 has the Chinese Communist Government maintained as many science and technology contacts so broadly at one time. Not only has China acquired foreign technology through commercial channels, such as purchases of whole plant or the import of machinery and equipment, but it has utilised government-to-government agreements and educational exchanges regarding science and technology as vehicles to secure guidance and assistance for overcoming many of its domestic shortcomings in science and technology. Although China's strategy for using foreign technology has undergone substantial domestic criticism and modification during the last few years, the present leadership remains committed to securing technology from the West (Simon, 1984:326).

Huang Fangyi noted that the introduction of foreign technology and the modernisation of science and technology since 1978 has entered a new phase because of the economic reforms carried out since the Third Plenum of the Eleventh Central Committee and also because of the technological revolution going on throughout the world. Many changes have been observed.

Firstly, there were changes in the scale of introducing foreign technology. For instance, from 1978-84, China signed 936 contracts with various countries for the introduction of technology at a cost of about US\$6.5 billion excluding the importation of equipment.

Secondly, there was a change in context of foreign technology. In the twenty nine years before 1978, the general value of purely technological contracts amounted to only slightly over 1% of the general value of all foreign technology introduced in the period. But from 1978 to 1982, the value of pure technological contracts amounted to US\$400 million and was 12% of the general value of the total (US\$3.2 billion) in this period, reflecting a growing proportion of pure technology in the total.

Thirdly, there was a change in the type of foreign technology introduced. China moved from the purchase of complete sets of plant and equipment to more diversified forms including licensed trade, joint ventures, compensation trade, advisory and consultancy services, technical services and so on. From 1952 to 1978, of the 790 items of foreign technology introduced under the direction of China's National Planning Committee, only eighty one or 2.3% of the total took the form of licensed trade, cooperative ventures, advisory or consultancy and technical services. But in the six years 1978-84, there were 530 such diverse contracts, constituting about 60% of more than 900 technology introduction projects (Huang, 1987:578-579).

Since the early 1980s, a concerted effort has also been made to remedy past neglect of education. Respect has been restored to intellectuals whose crucial role in socioeconomic development has been emphasized. Intellectuals are no longer considered bourgeois outcasts. Educational institutions have been expanded and academic standards have been restored.

Because they lack suitable educational facilities, the Chinese have sent more than 30,000 students abroad since 1978, about half of them to the United States. By 1985, in order to update its research capabilities, China signed agreements with foreign countries on more than 300 projects for science and technology exchange and cooperation (Salem, 1989:167). For instance, as of 1986, twenty five formal agreements on cooperation in sciences and technology were signed between the US and China. Some of these agreements took the form of international protocols, some were exchanges of letters, while others were memoranda of understanding. The agreements covered cooperation on various topics such as space technology, meteorology, fisheries, medicine and public health, nuclear safety, aeronautical science and technology and environmental protection (Wortzel, 1987:622-3).

The national plan revealed in 1978 for scientific and technological development gave priority to research in eight general areas : agriculture, energy resources, materials, electronic computers, lasers, space sciences, high energy physics and genetic engineering.

2.5: MILITARY MODERNISATION

Military modernisation has been accorded lower priority since 1980 (Table below reflects the fall in the military budget as a percentage of the public expenditures). This was because economic development was seen as integral and probably more

fundamental to national defence than the military apparatus. Consequently, economic modernisation was rated foremost in the allocation of resources, and all efforts underpinned this primary objective, including a reduction of the military establishment. The principal emphasis in China's military cutback was reduction of the military's burden on the economy (Tai, 1988:759-764).

Table 2.3: Fall in Defence Expenditure

	1981	1982	1983	1984	1985	1986	1987	1988
Defence as % of Public Expenditure	18.0	15.5	15.3	13.7	11.9	n.a	9.0	8.5

Source : FEER Asia Yearbooks

A number of top military commanders, such as Deng loyalist, Yang Dezhi (then Chief of Staff of the People's Liberation Army) and Defence Minister, Zhang Aiping, while representing military interests also believed that economic development in the short term at least, had a higher priority than military modernisation (Tai, 1988:759). As Zhang said in 1983:

...modernisation of our national defence must be based on the construction of our national economy.

However, he qualified by noting that:

...with the development of the country's economic construction, more favourable conditions will be created in turn for national defence construction. This means not only funds for building national defence will

be increased but more fine scientific and technological personnel and newer scientific and technological results will also be shifted to the military industry to promote the development of national defence modernisation (BBC SWB, FE Part III, 18/3/83).

Despite being accorded lower priority in resource allocation, the modernisation of the PLA has still gone ahead in some ways. For instance, China has acquired from the West advanced radar, computers and other civil-military advanced technology, equipment related to surveillance, air defence and aerospace (Yahuda, 1983:163). Also, through many of China's "window-shopping" trips to the advanced countries of the West and defence fairs and exhibitions, China's military delegations were exposed to the advanced weaponry of the West. Useful information on the technical specifications and performance aspects of the weapons systems were also acquired or observed during such visits. This in turn helped the Chinese military planners to appreciate the doctrinal aspect of the weapons system and familiarise themselves with the requirements of modern warfare (Romance, 1980:309).

Generally, however, some of the measures implemented to modernise the PLA also served to contribute to economic modernisation to some extent. For example, the demobilisation of some one million PLA soldiers not only reduced the burden on the state, but made available considerable economic resources that were to be better utilised or employed in other sectors of the economy. Thus, the demobilisation process was coupled with skills-training programmes and courses, such as crop cultivation,

pig-farming, various technologies and business management (Tai, 1988:768).

Another area of military modernisation with economic overtones was the direction of the surplus production capacity of the defence industries into the area of foreign arms sales and exports. The procurements of the PLA have been cut back in the 1980s not only to reduce the budget, but to develop the capability of an indigenous defence industry, and to exploit the excess production capacities to join in the growing arms trade in the world (Tai, 1988:772). This global trading in weapons and expertise, as Premier Zhao Ziyang pointed out in 1986 "is an outgrowth of China's opening to the world" (China Daily, 8/11/86).

2.6: POLITICAL AND INSTITUTIONAL CHANGES

Underlying all the recent changes in China has been a major reordering of the social priorities. In place of the Maoist stress on class struggle, continuous revolution and egalitarian social goals, the new leadership under Deng has elevated pragmatism and economic growth to the status of the country's primary guiding principles or goals.

In 1978, the Chinese leadership under the increasing influence of Deng and his supporters began to search for a political arrangement to mesh with and support the strategy of economic development to which they were committed. However, in

many respects, the changes in the political arena have taken longer and been more difficult to effect than many of the economic reforms because they threatened the power and entrenched positions of many officials in senior leadership positions. Nonetheless, some significant changes were deemed necessary for economic reforms. The Chinese leadership realised that China must maintain political stability if it is to come close to achieving its modernisation goals. Among some of the political changes advocated were : the separation of Party and State functions, the move towards collective leadership, and the creation and strengthening of the socialist legal system.

Just as they wished to replace the mobilisation style of development favoured by Mao. with a more conservative and institutionalised one, the leaders also hoped to reform the political system into one which would implement changes in an orderly manner, free from the arbitrary and often violent twists and turns which had characterised the political process from the Great Leap onwards, and especially since the Cultural Revolution which began in 1966. To this end, they began to talk at length of "socialist legality". They also wanted the new arrangement to give more "rights to the masses". For the leadership, this meant that the Party and the Government should be more responsive to public opinion, and that "the masses" should be given institutional channels through which they could supervise, criticise and to a certain limited extent even, choose their leaders. But as good Leninists, China's leaders intended that the Party should remain in full control, that the extension of

freedom should be gradual and that there should be no lapse into "anarchism" (Gardner, 1982:141).

On 18 August 1980, Deng delivered a major speech at the Politburo meeting, in the course of which he dealt with matters to be raised at the Third Session of the Fifth National People's Congress. He gave a very clear view of what he thought was wrong with China, and what should be done to put it right.

First, he said that it was necessary to move away from that excessive concentration of power which had hindered the full exercise of collective wisdom and resulted in individual arbitrariness. Secondly, any person should not be permitted to hold too many posts and deputised positions. An individual's knowledge, experience and energy were limited, and holding too many posts made it impossible to work effectively. Thirdly, it was necessary to separate party and governmental affairs, and to stop using the Party as a substitute for the Government. Fourthly, it was time for China's old politicians to step down. He particularly stressed the need to promote young people with good qualifications, and he condemned the system of lifelong tenure for leadership positions (Gardner, 1982:175-6).

The Chinese leadership has realised that a degree of democracy (as defined by them) would be both desirable, to promote modernisation, and inevitable given the proposed rapid social changes, notably in the cities. The Party had found itself unable to impose stringent controls on the expression of opinion

and it had thus found itself in an ambiguous position of wishing to promote democracy but at the same time wishing to "guide" it (Saich, 1982:29).

In changing the relationship between state and society and in reforming the political system and processes, the political leadership has opted for a middle course. This middle course is marked out, on the one hand, by the ideological and political line adopted at the Third Plenum, and on the other hand, by the affirmation of the four basic principles : upholding socialism; the dictatorship of the proletariat; the leadership of the Communist Party and adherence to Marxism-Leninism and Mao Zedong's Thought. This choice of the middle course is most clearly reflected in the abandonment of the notion of class struggle between the two lines and its substitution by the concept of the struggles on two fronts against both leftist ideas and the tendency towards bourgeois liberalisation (Tang, 1984:28).

Zhao Ziyang, in his report to the Thirteenth Party Congress enumerated a number of institutional forces which reform of the political system might take. Among these, the separation of the Party and the State received the most attention. The separation of Party and State was followed by six other points : delegating powers to lower levels; reforming government organisation; reforming the personnel system relating to cadres; establishing a system of consultation and dialogue; improving a number of systems related to socialist democracy and strengthening the socialist legal system (Schram, 1988:177).

(1) Separation of Party and State functions

The separation of Party and State, which constituted the first item in Zhao's programme for political reform, is crucial to the transformation and development of the economy. The various measures adopted with regards to this goal limit the sphere of operations of the Party but not its overall authority. Changes were made in the spirit of Deng's call for upholding firmly the leadership of the Party by improving it and its style of work. In essence, the general effect was to give greater operational authority to the Government, so that the Party can focus its attention on comprehensive and long-term programmes and gain ultimate ideological and political control. In the words of Hu Yaobang,

Party leadership is mainly ideological in matters of principle and policy and in the selection, allocation, assessment and supervision of cadres.
(Hu Yaobang's Report to the 12th National Party Congress - BBC SWB Part III, Far East, FE/7125/C17).

In other words, the Party is to be primarily concerned with the formulation of policies whereas the State, or more accurately the Government, is to be involved in administrative work, executing and directing the policies endorsed by the Party.

The present leadership has sought to recreate the distinction between Party and State also in the hope of preventing over-concentration of power. This renewed stress on the functional separation of Party and State has been accompanied by the appointment of different people to parallel Party and State posts.

(2) Move towards Collective Leadership

Closely linked to the move towards separation of powers was the desire to replace individual rule with collective leadership. Power was no longer to be concentrated in the hands of a single individual. To disperse the power, there was the elimination of the Party Chairman system. Various leadership posts were held by different people, for instance, Zhao Ziyang as Head of Party (General Secretary), Li Peng as Head of Government (Premier), Deng Xiaoping as Head of Military and Yang Shangkun as the nominal Head of State (President).

Besides restricting the number of concurrent positions held by leaders and reviving democratic centralism, Deng also established a new Central Advisory Committee on top of the Central Discipline Inspection Commission in 1986. These two Commissions like the Central Committee are elected by the National Party Congress and each has clearly defined tasks and jurisdiction.

In the 1982 State Constitution of the PRC, the Chairmanship (Presidency) of the State is re-instituted, but its power is sharply reduced. The National People's Congress remains as the sole legislative body and its authority, particularly of its Standing Committee is strengthened. The position of the Premier of the State Council is enhanced by the stipulation that the Premier has overall responsibility for the State Council. The troika in the Government structure consists of the Premier, the Chairman of the Standing Committee of the National People's

Congress and the Chairman of the Central Military Commission. The tenure of the President, the Premier, Vice-Premiers, State Councillors and the Chairman and Vice-Chairman of the Standing Committee of the National People's Congress is limited to two consecutive terms of five years each.

This new organisational line and changes has had the aim of preventing any recurrence of the building up of personality cult and rule by an individual.

(3) Move towards more democracy

While insisting unequivocally on Party leadership and rejecting the separation of three powers - the Legislature, the Executive and the Judiciary, Zhao agreed on the need for more democracy. The Chinese leadership considered elections as playing an important part in the promotion of democracy. Measures had been introduced to ensure greater accountability from those elected. A new chapter had been added to the electoral law, for example, stating that elector or electoral units have the power to supervise and recall their deputies. Another new procedure sought to ensure that elections would be within limits competitive - that is, there were to be more candidates than positions to be filled.

The scope of election has been extended. In addition to the elections of work-place cadres, the principle of direct elections for people's congresses has been extended to the county level. The secret ballot has also been reinstated.

Besides formal elections, there was also to be emphasis on more consultation and informal dialogue involving face-to-face encounters between leading officials at various levels and groups of their constituents. This could be seen as a step toward the institutionalisation of the tradition of the massline.

(4) Reforms in the Personnel Systems within both State and Party Bureaucracies

To increase organisational efficiency in both the state and party bureaucracies, recruitment was to be based more on job-related criteria than "redness". The criteria offered in these reforms highlight youth and expertise, but continue to emphasize political loyalty as an important quality in the case of party cadres. In the civil service, personnel were to be recruited under a competitive system.

Younger (usually middle-aged), more educated officials were being promoted to more senior positions. A whole new generation of young experts has gradually taken over and replaced the poorly educated cadres promoted during the Cultural Revolution. There has been a modernisation of the cadres :

- (a) *Nianqinghua*: Reduction of age by setting up age bars;
- (b) *Zhishihua*: Enhancement of educational qualifications;
- (c) *Zhuanyehua*: Insistence on specialisation and expertise;
- and
- (d) *Geminghua*: Guarantee of revolutionary zeal (Tan, 1984:25).

China's reformers also sought to motivate cadres by improving the rewards processes. Promotions, rewards and punishment were to be linked to performance through a periodic and reliable performance appraisal system.

Another major reform in the personnel management system was the abolition of the life-time tenure system. Two measures have been taken to end the tradition of lifetime appointments. One relieved old cadres from active responsibilities by appointing them as advisors. The other fixed tenures for various posts (Burns, 1983:716).

Amidst all the above changes, there is, however, one constant : the framework of the Leninist Party-State will not be changed and the supremacy of the Party is not to be questioned or challenged. The limits to political and institutional reforms are set by the four fundamental principles of upholding socialism; Marxism-Leninism and Mao Zedong's thought; the dictatorship of the proletariat and the leadership of the Communist Party. These can actually be summarised into one simple phrase: the preservation and strengthening of the Leninist party-state. Reforms are permitted only within this restrictive framework. Political modernisation has been limited to what is necessary to achieve economic modernisation. No individual or group is allowed to challenge the leadership of the Party and no opposition to the Party is allowed to exist (Tang, 1984:47 & 62). The 4 June 1989 crack down on peaceful students demonstration in Tian An Men Square only goes to show the intolerance towards any opposition to the Party.

CHAPTER TWO: REFERENCES

1. A Doak Barnett China's Economy In Global Perspective
(Washington DC: Brookings Institution, 1981)
2. David Bachman "Differing Visions of China's Post-Mao Economy: The ideas of Chen Yun, Deng Xiaoping and Zhao Zhiyang" in *Asian Survey* Vol. XXVI, No. 3, March 1986
3. Lowell Dittmer "China in 1988: The Continuing Dilemmas of Socialist Reforms" in *Asian Survey*, Vol. XXIX, No. 1, January 1989
4. Jack Gray & Gordon White "Introduction" in Jack Gray & Gordon White, ed., *China's New Development Strategy* (London: Academic Press, 1982)
5. Rosalie Tung Chinese Industrial Society After Mao
(Toronto: DC Heath & Co, 1982)
6. Robert Dernberger "China's New Economic Development: Problems and Prospects" in Norton Ginsburg & Bernard Lahor, ed., *China: The 80s Era* (Boulder & London: Westview Press, 1984) pp 99-144
7. George P Jan "The Responsibility System and its Economic Impact on Rural China" in *Asian Profile*, Vol. 14, No. 5, October 1986
8. Michel Chossudovsky Towards Capitalist Restoration? Chinese Socialism After Mao (Hong Kong: MacMillan Press, 1986)
9. David Zweig "Opposition to Change in Rural China: The System of Responsibility and the People's Commune" in *Asian Survey*, Vol. XXIII, No. 7, July 1983
10. Joyce Kallgren "The Concept of Decentralisation in Document No. 1, 1984" in *China Quarterly* No. 101, March 1985
11. Andrew Watson "The Management of the Industrial Economy: The return of the Economists" in Jack Gray & Gordon White, ed., *China's New Development Strategy* (London: Academic Press, 1982)

12. Bruce Reynolds "China in the International Economy" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, (New Haven: Yale University Press, 1984), pp 71-106
13. Tony Saich "New Directions in Politics & Government" in Jack Gray & Gordon White, ed, *China's New Development Strategy* (London: Academic Press, 1982)
14. Carl Riskin China's Political Economy: The Quest For Development Since 1949 (New York: Oxford University Press, 1987)
15. Ma Hong New Strategy For China's Economy (Beijing: New World Press, 1983)
16. Clyde Stoltenberg "China's Special Economic Zones" in *Asian Survey*, Vol. XXIV, No. 6, June 1984
17. C.K. Leung "Spatial Redeployment and the Special Economic Zones in China: An Overview" in Y.C Jao & C.K Leung, ed., *China's Special Economic Zones*, (Hong Kong: Oxford University Press, 1986)
18. Christopher Clarke "Decentralisation" in *China Business Review*, Issue 11, No. 2, March/April 1984
19. Carolyn Brehm "Flex Trade" in *China Business Review*, Issue 10, No. 5, September/October 1983
20. Madelyn Ross "China Heads Towards 2000" in *China Business Review*, Issue 12, No. 4, July/August 1985
21. Cao Guanlin "Construction Contracting and Labour Cooperation Abroad" in *Beijing Review*, No. 52, 26 December 1983
22. Denis Simon "China's Absorption and Foreign Technology: Prospects and Problems" in Norton Ginsburg & Bernard Lalor, ed., *China: The 80s Era* (Boulder: Westview Press, 1984)
23. Huang Fangyi "China's Foreign Technology and External Trade: Analysis and Options" in *Asian Survey*, Vol. XXVII, No. 5, May 1987
24. Naim J. Salem "China's Economic Modernisation: Ideological and Structural Constraints" in *Asian Affairs*, Vol. 15, No. 3, Fall 1988

25. Larry Wortzel "US Technology Transfer Policies and the Modernisation of the Chinese Armed Forces" in *Asian Survey*, Vol. XXXII, No. 6, June 1987
26. Tai Ming Cheung "Military Opening Windows to the World" in *Pacific Defence Reporter*, Vol. XIV, No. 6/7, December 1987/January 1988
27. John Gardner Chinese Politics and the Succession to Mao (London: MacMillan Press, 1982)
28. Stuart Schram "China After the 13th Congress" in *China Quarterly*, No. 114, June 1988
29. Tan Chung "From Personality Rule to Organisation Rule" in *China Report*, Vol. XX, No. 4 & 5, July-August/September-October 1984
30. John Burns "Reforming China's Bureaucracy, 1979-1982" in *Asian Survey*, Vol. XXIII, No. 6, June 1983
31. Tang Tsou "Political Change and Reform : The Middle Course" in Norton Ginsburg & Bernard Lalor ed., *China: The 80s Era* (Boulder, Westview Press, 1984)

CHAPTER THREE

IMPACT OF CHINA'S MODERNISATION ON ASEAN'S SECURITY

3.1: INTRODUCTION

The constant theme in China's domestic politics is economic modernisation. The goal of modernisation also features prominently in China's foreign policy. This is, however, only a means to an end. The end goal is national security and independence (but to be independent one must be economically strong - modernised), especially independence from the major powers. This is derived from its insistence on dignity, territorial integrity and sovereignty. This in part reflects the modern history of China - a victim of repeated military pressure and foreign aggression from the 1840s to the 1940s.¹

Michael Yahuda has argued that there are two broad dimensions in China's foreign policy - the societal and the strategic dimensions. The first concerns those aspects of political, social and economic changes at home which affect China's orientation to the outside world. The strategic dimension, in contrast, is concerned with the management of China's national security interests in response to perceived changes in the global and regional balance of power (Yahuda, 1983:3). In short, China's

1. This point was made by Dr Chang Paomin, Senior Lecturer of Political Science, National University of Singapore, during one of the in-house seminars on "China's Foreign Policy" in 1985.

international behaviour is the product of a complex interaction of China's internal politics and capabilities with her assessment of the intentions and capabilities of other global or regional powers (Taylor, 1974:373).

The People's Republic of China's (PRC) foreign policy since 1949 has owed a lot to developments in the international arena: the emergence of the Cold War between the Soviet Union and the United States; the United States' policy of containing the spread of communism; the desire of the Soviet Union to maintain leadership over the international Communist movement; the rise of the Third World as a major force in international affairs; and the shifting military balance between Washington and Moscow. But Chinese foreign policy has also been affected by domestic forces. There is no consensus as to which factors, international or domestic, were more important at any given time in determining the course of Chinese' foreign policy. But there is no doubt that China's foreign relations cannot be fully understood without reference to its domestic affairs. Each of China's principal domestic development strategies - the First Five-Year Plan, the Great Leap Forward of the 1950s, the Cultural Revolution of the 1960s and 1970s and the modernisation and open-door policies of the 1980s - has had profound effects on its posture towards the rest of the world (Lieberthal, 1984:43).

Many scholars such as Michael Yahuda, Jonathan Pollack, Robert Sutter, and A.Doak Barnett believe that the adoption of the Four Modernisation Programmes and the corresponding open door policy in 1978 significantly changed China's international

position. They argue that China's increasing search for trade, capital and technology has made it more conservative (that is, less revolutionary) in contemporary international politics. It no longer seeks to export revolution; instead it desires peaceful, stable global and regional environments in which it can concentrate on its modernisation. This change in its overall foreign policy in turn has wider implications for China's smaller neighbours in ASEAN. China provides a big market and increased trade opportunities. It has also sought increased cooperation with the various ASEAN states and in the process cutback its support for ASEAN communist parties.

Does ASEAN really enjoy greater security with a more stable environment because of China's modernisation? I will examine this question from ASEAN's perspective.

ASEAN's security can be threatened by both external and internal sources. Direct military attacks on the ASEAN states or subversion by external powers are examples of external threats to ASEAN's security and territorial integrity. Although direct military attacks are quite unlikely, intense rivalries between the major powers in the Southeast Asian region will increase the risks of external threats. For instance, competition between great powers to gain a strong foothold and carve a sphere of influence may lead to subversive activities designed to influence the course of politics in the ASEAN states.

The main threat to the stability of the ASEAN countries is, however, internal in nature. Issues such as poverty, increasing

disparities between the rich and the poor, racial conflicts, religious fundamentalism, political succession and rampant corruption in society pose a much greater and imminent threat to most ASEAN countries.

From the ASEAN countries' point of view, China's influence on their security stems from its geographical proximity, historical and cultural links, its large population, its huge military force and its great power status. Of all the great powers, China has the most direct interest in the pattern of power within the Southeast Asian region as it is physically linked to Southeast Asia through shared borders with Vietnam, Burma and Laos. Conversely, ASEAN is constantly on its guard against China's intentions. Although a direct attack by China is unlikely, the ASEAN countries are wary of Chinese subversion because of its links with their outlawed communist parties. They are also afraid that China might exploit the sentiments of the ethnic Chinese in their countries, which has the danger of leading to increased ethnic tensions. Another area of possible contention between some ASEAN countries and China is the conflicting claims over some of the Spratly islands in the South China Sea.

It is in these crucial areas - China's relations with and activities in response to the other superpowers in this region; China's policies towards the outlawed Communist parties and the ethnic Chinese in the ASEAN countries and China's claims over the Spratly islands in the South China Sea - that I examine the impact of China's modernisation on ASEAN's security.

3.2: CHINA'S RELATIONS WITH THE SUPERPOWERS

Strategic considerations are key factors governing China's relations with the two superpowers. Much of China's policy towards the superpowers is a reaction to the policies and positions adopted by the latter. Because of China's comparative weakness vis-a-vis the two superpowers, it is usually placed on the defensive and its policies tend to be more reactive than proactive.

Domestic policies pursued by China also influence its foreign policy options. For instance, China's rejection of Soviet's development model in the late 1950s and its switch to the Great Leap programmes contributed to the Sino-Soviet split.

The motivation to move closer to the U.S. in the late 1970s arose from both strategic calculations and domestic economic requirements. The 1978 Soviet-backed Vietnamese invasion of Kampuchea, the Soviet invasion and occupation of Afghanistan and its increased deployment of forces at the Sino-Soviet border, all contributed to China's fear of an increasing Soviet military threat. The encirclement of China appeared complete with the fall of Kampuchea and Afghanistan. Faced with such a situation the Chinese leaders made a conscious decision to move closer to the U.S. and its allies and friends in the hope of enhancing its security and checking further Soviet expansion.

China saw the Soviet Union as thrusting outward into Asia directly in Southwest Asia through its occupation of Afghanistan

and indirectly in Southeast Asia through its ally, Vietnam. Thus China's security concern in Southeast Asia focused on the Soviet Union and Vietnam. Vietnam's close alliance with Moscow facilitated Moscow's containment of China by providing basing rights for the Soviet navy and air force in the Cam Ranh Bay and Danang military bases (Levine, 1984:117-130).

Increasing Sino-Vietnamese conflict in the Southeast Asian region (seen by China as a microcosm of its greater conflict with the Soviet Union), especially after the fall of Kampuchea led to the heightening of regional tensions. It also caused some initial jitters amongst the ASEAN countries. The punitive war waged by China against Vietnam in February 1979 to teach the latter "a lesson" only compounded to ASEAN's fears of increasing regional tensions and instability. An escalating Sino-Soviet conflict in the region would undermine the stability and security of the ASEAN countries.

Fortunately, China's desire for a peaceful global and regional environment where it could concentrate on modernisation provided a substantial incentive for China to keep its tensions with the Soviet Union at a manageable level. Although China continued to supply arms to the Khmer Rouge to keep up the pressure on Vietnam, China also supported ASEAN in the search for a diplomatic solution to the Kampuchean problem.

In the early 1980s, China also moved towards a limited detente with the Soviet Union. Chinese leaders believed that a policy of limited Sino-Soviet detente would give China a greater

manoeuvrability vis-a-vis both superpowers and make the U.S. and the USSR more inclined to concede to Chinese demands. It was also a pragmatic response to the continuing Soviet military build-up in Asia. China's calculated close ties with the U.S. had failed to stop the build-up in Soviet military power or elicit a more favourable response from the Russians on the three key issues concerning China's national security, namely, Soviet support for Vietnam's continued occupation of Kampuchea, Soviet troops in Afghanistan and the deployment of highly accurate SS-20 intermediate range missiles along the Sino-Soviet border. Chinese leaders hoped that by seeking a limited detente and engaging in negotiations with Moscow, the latter would refrain from using force against China (Yahuda, 1983:118). Bi-annual talks at the vice-foreign ministerial level were thus revived in October 1982.

The increasing contacts and exchanges with the Soviet Union may have arisen from a strategic calculation to signal China's independent posture between the two superpowers: to display China's displeasure with the U.S. over Reagan's decision to resume the sale of military arms to Taiwan, and over the issue of technology transfer and some trade problems; and to allow China greater flexibility in its actions within the great power triangle, the internal modernisation programme was also a factor in bringing about this change in China's Soviet policy. A much more active Sino-Soviet economic and technological relationship was appealing to some Chinese leaders because of a perceived complementarity between the two economies and the fact that much of China's heavy industrial base was furnished by the Soviet

Union in the 1950s. There was a large market in the Soviet Union for China's light industrial products such as textiles in return for the Soviet Union's heavy equipment and machinery. Although Soviet technology on the whole may not have been up to the most advanced levels of Japan and the U.S., it was more advanced than that of China. Even more important it could be more readily adopted to Chinese condition as a great deal of Chinese technology was derived from Soviet technology supplied in the 1950s (Yahuda, 1982:45-6).

Thus, in December 1984, China and Russia signed three Economic and Scientific Agreements. The three Agreements covered a wide range of economic cooperation, including the exchange of production technology and technical know-how; the construction and revamping of industrial enterprises; technical training; joint studies; and exchanges of experts, scholars and scientific and technical information and data under the supervision of a new Sino-Soviet Economic, Trade, Scientific and Technological Cooperation Committee (Asia Research Bulletin, 28/2/85).

In 1985, the two countries signed a 1986-90 trade pact which put economic ties back on a long-term path. Under the terms of the Agreement, the USSR would provide heavy industry, aircraft, motor vehicles, power equipment, railway rolling stock, chemicals and metals in exchange for Chinese foodstuffs, textiles and various consumer items. China and Soviet Union would deal through barter arrangements which would not entail any outlays of hard currency reserves. The Agreement also covered Soviet technical assistance in modernising seventeen enterprises in metallurgy,

coal, machine building and chemicals as well as participation in new construction in the power industry.

The above agreements suggest that some Chinese planners saw the relevance of selected Soviet industrial technologies for some of Chinese development needs and the role which increased Sino-Soviet trade could play in China's modernisation (Pollack, 1987:61-66).

Though the anti-Soviet factor was the initial reason for Sino-American rapprochement, the domestic economic modernisation programme gave an added incentive for China to seek closer ties with the U.S. and its Western allies. Good relations with the U.S. were seen as essential to expanding trade and to securing foreign capital, investments and advanced scientific and technological knowledge much needed for China's economic modernisation. Since most international financial institutions are dominated by the U.S., Japan and the advanced Western nations, a good relationship with U.S. would be crucial in gaining access to international loans and credits.

After 1980, as modernisation gathered momentum, the Chinese leaders were deeply involved with internal political and economic problems that arose in the course of modernisation, but the need for foreign investments, capital and technology to help in attaining their ambitious goals dictated a cautious approach to foreign relations. Even as it has moved closer to Japan and the West, (particularly the U.S. because of modernisation requirements), it has sought a limited detente with the Soviet

Union to keep conflicts between them at a manageable level. It has relied more on diplomacy to ensure its national security. A glance at China's foreign policy revealed such efforts. Negotiations with the Soviet Union focused on reducing forces in the Sino-Soviet frontier. Talks with India also served to reduce tensions along the Sino-Indian border and Dehli and Islambad have been encouraged to adopt conciliatory moves in order to establish a more peaceful environment in South Asia. On the Korean Peninsula, China has also constantly emphasized the necessity for a peaceful settlement of the conflict between North and South Korea (Simon, 1984:512).

Because a stable global and regional environment offers the best setting for China's modernisation, it has in recent years acted with prudence and restraint in keeping tensions low or within manageable level. Regional stability is crucial for the security and development of smaller states in ASEAN. China's greater openness and pragmatism in its foreign policy following its pursuit of an open-door policy has also provided a more favourable atmosphere for the ASEAN countries to explore better relations with China.

Although the anti-Soviet component of Sino-American strategic ties has receded in importance, economic and technological factors in the relationship remain important considerations for China. Beijing's desire to expand its access to advanced technology, trade and investments thus provides a strong impetus for maintaining close ties with US and its allies. Without continuing close relations, China's access to advanced

technologies needed for industrial and military modernisation would become far more problematic (Garrett and Glaser, 1989:360). From ASEAN's point of view, a China that was close to the West, and open to the world presented less problems to the region than one that was closed, isolated and resentful of the outside world.

3.3: CHINA'S LINKS WITH THE COMMUNIST PARTIES OF ASEAN

The ASEAN countries all have a communist party which challenges the legitimacy and authority of the existing governments - the Communist Party of Malaya (CPM); the Partai Komunis Indonesia (PKI), the Communist Party of Thailand (CPT) and the Communist Party of the Philippines (CPP). Though the threat posed by these communist parties (besides the CPP which is still the single most serious threat to internal stability in the Philippines now) has subsided in recent years, they have all resorted to armed struggles and posed grave threats to the various ASEAN countries at one stage or another in the past.

Most of these parties were and some of them are still pro-Beijing, in return receiving some form of support from China, whether material or political and moral support. Beijing's support for or links with these communist parties has been an issue that has hindered the normalisation of relations between China and the various ASEAN states for quite some time.

Since Deng Xiaoping's return to power in the late 1970s, China's policies towards the ASEAN countries have been consistent

with its promotion of a stable international political environment to permit concentration on economic development. China has sought actively to promote better state-to-state relations and in doing so, has cut back on her outward support for the various communist parties (McGregor, 1988:33).

However, a more immediate reason for China's reduced support for ASEAN's communist parties derived from the political developments in the Indochina Peninsula. These developments started with the U.S. debacle in Vietnam, the reunification of Vietnam in April 1975, to Vietnam's increasing alliance with the Soviet Union leading to the signing of a Treaty of Friendship and Cooperation in 1978, and finally the invasion of Kampuchea by Vietnam, backed by the Soviet Union.

The pronouncement of the Guam Doctrine followed by the withdrawal of US troops from the Indochina Peninsula in the early 1970s coincided with the return of the moderates to the domestic political scene in China. The end of the radical phase of the Cultural Revolution and the triumph of Zhou Enlai and his supporters over Lin Biao facilitated the return to a more flexible and pragmatic approach in Chinese foreign policy.

China was eager to win ASEAN's friendship in order to check Soviet's increasing influence in Southeast Asia. ASEAN countries in the advent of a Sino-American rapprochement were also more willing to accommodate the vital interests of China and recognised the latter's role in ensuring the security of the region.

Thus the desire to improve relations in the early 1970s was not a unilateral effort on China's part. While China began to court the friendship of the various ASEAN countries, the changing global scene and the changing regional balance of power in Southeast Asia were reasons enough for the ASEAN countries to re-evaluate their policies towards China. Except for Indonesia, all ASEAN countries responded positively to China's gestures for fostering closer relations (Khaw, 1977:32-33). Malaysia was the first ASEAN country to establish diplomatic ties with China in May 1974. The reunification of Vietnam in 1975 further hastened the process of normalisation of relations with China; the Philippines and Thailand established official ties with China in June and July 1975 respectively. Indonesia remained apprehensive about reviving its ties with China. And Singapore has declared that it will only normalise relations with China after Indonesia has done so.

Studies done by Jay Taylor (Taylor, 1974:371-376) on the relationship between China and the Communist parties of Southeast Asia show that developing friendly relations with Southeast Asian countries has been China's objective in Southeast Asia all along. Melvin Gurtor further argues that China has placed more importance on state-to-state relations rather than party-to-party relations. In fact China's policy towards the Communist parties in Southeast Asia is primarily a function of the condition of state-to-state relations, that is, when the context of state-to-state relations is good, support for the communist parties will be low.

Indeed, from the very beginning of its establishment in 1949 China tried to win the friendship of her neighbouring countries in Southeast Asia in the hope of loosening the ties between these countries and its then arch foe, the U.S. In the interest of establishing better state-to-state relations, its support for the communist parties in the 1950s was low and unobtrusive.

However, China's gestures to woo the ASEAN governments into establishing state-to-state ties with itself were not reciprocated. Thailand and the Philippines in the 1950s through to the 1960s were actively following the American policy of containing China. Their participation in the Southeast Asia Treaty Organisation (SEATO), a military alliance created by the US to contain the spread of communism was an additional sore point. Although Malaysia did not join SEATO, it refused to recognise China and isolated itself from the latter. Publications from China were banned and the Bank of China branch in Kuala Lumpur was closed. Malaysia also concluded a military treaty, the Anglo-Malayan Defence Agreement (AMDA), with Great Britain.

When the diplomatic efforts to win the friendship of these countries failed, China turned to supporting their outlawed communist parties. The thinking behind this was that if making friends failed, perhaps making enemies might overawe them and "cow" them into deference towards China. Hence, from the 1960s onwards, China began to adopt a policy of active overt support for the communist movements in the ASEAN countries.

Changing power structures and the realities facing China and

the ASEAN countries forced both parties to seek accommodation with each other and worked towards the improvement of bilateral relations. The 1978 Soviet-backed Vietnamese invasion of Kampuchea brought about a convergence of interest between ASEAN and China, resulting in moves by both parties to further accommodate each other and create a temporary alliance to check the expansionist designs of Vietnam backed by the Soviet Union in Southeast Asia.

The Vietnamese invasion of Kampuchea has indirectly helped China to improve its position in the eyes of the ASEAN countries. The Kampuchean issue posed a direct threat to Thailand's security and thereby endangered ASEAN's security as a whole. China's opposition to Vietnam was thus welcomed by ASEAN.

In Kampuchea, China has actively supported the anti-Vietnamese resistance forces, especially the Khmer Rouge. In supplying physical support for the Khmer Rouge, China has had to make use of Thai facilities and has consequently become a close ally of Thailand in their common opposition to Vietnamese aggression. China has even declared that it would not permit Vietnam to invade Thailand and has supplied Thailand with military hardware and ammunition at cheap prices. Intimate Sino-Thai relations in the 1980s was a stark contrast to their adversarial attitudes towards each other in the 1960s when Thailand was a faithful follower of US containment policy against China.

It was thus the Soviet-backed Vietnamese invasion of Kampuchea

that brought China and ASEAN to see each other in a more favourable light. China's forces in its southern border have exerted considerable military pressure on Vietnam, tying down some 60% of the latter's regular forces and keeping Vietnam from realising its hegemonic designs.

In its conflict with Soviet-backed Vietnam, China had to adopt a very different vocabulary from that employed in its confrontation with the United States in the 1950s and 1960s. The revolutionary rhetoric of the earlier decades was less suited to the task of dealing with the Soviet Union and Vietnam as they were, after all also Communist countries that trumpeted their commitment to supporting other communist revolutions. Instead, China had to appear as a responsible member of the international system promoting stability and order (Levine, 1984:124-5). Thus China lost no time in accusing the Soviet Union-Vietnam clique of posing a threat to regional stability and the security of smaller countries in Southeast Asia through their aggression against Kampuchea. In order to portray Vietnam as the main threat to the region and to contrast itself favourably against Vietnam, China thus reduced its support for the communist insurgencies in the ASEAN countries.

As mentioned in the earlier part of this chapter, the modernisation agenda which plugged China more and more into the world economy provided an added incentive to keep its global and regional environments stable. Increasing tensions would only divert its attention and scarce resources away from the tasks of modernisation. The internal stability of the ASEAN countries was

thus not only important to the overall stability of the region, but a strong ASEAN on the side of China would also be a major diplomatic triumph for the latter vis-a-vis Russia. China therefore reduced its support for those communist movements that would threaten the stability of the ASEAN countries and concentrated its efforts in building-up better state-to-state relations with the ASEAN countries.

Beijing's moderation since the late 1970s of its support for communist parties in the ASEAN countries was intended to alleviate ASEAN's fear of the threat China posed to their national and regional stability and to enhance Beijing's policy of regional stabilisation. The limited support that China still gave to these parties probably owed much to fears that if it were to withdraw support altogether, Vietnam might replace itself as their sponsor, and the parties would come under the influence of Vietnam.

At the same time, the open door policy pursued by China also provided the ASEAN countries with a better insight into Chinese society. Much of the awe and mystique surrounding China because of its isolation from the outside world for more than two decades was eroded. It presented itself as any other country with its own problems. The better understanding of China gave ASEAN countries more confidence in dealing with the former.

In addition, the nature of the economic policies implemented by China bore many similarities to those of a capitalist economy. This whittled away the revolutionary ideological leadership that

China had claimed for itself in the 1960s. China no longer served as a credible revolutionary model for the ASEAN communist parties to emulate. Not only did material aid from China decline, but the ideological support that China could provide was also being eroded. Indeed, Harold Crouch noted that although most of the ASEAN communist parties were at one stage very pro-Beijing, they have since developed to become much more national organisations (Crouch, 1982:74). Both the Sino-Vietnamese conflict and China's modernisation have forced the communist parties to become more self-reliant in terms of material and moral support, strategy and tactics (Weatherbee, 1983:62).

The estrangement of the local communist parties from China, however, does not necessarily mean a reduction of their threats to the ASEAN governments. The role of the Chinese Communist Party in the communist movement of the ASEAN countries and its ability to influence these communist parties has often been exaggerated. Most of them are national organisations that exploit local issues particular to their own countries such as corruption, military abuses and poverty. The panacea for eliminating the communist threats thus lies in the ASEAN government's efforts in solving these problems.

3.4: CHINA'S POLICY TOWARDS THE OVERSEAS CHINESE

There are approximately 18.4 million ethnic Chinese in Southeast Asia. This community is heterogeneous in terms of culture, political orientation, economic status, etc. In terms of

political orientation, there are different factions, some sympathetic towards China, some pro-Taiwan, but with the majority accepting the reality that their fate depends more on the country that they are residing in than on Beijing or Taipei. Studies by Leo Suryadinata and Wang Gungwu confirm the heterogeneous nature of the overseas Chinese (Suryadinata, 1985:10-23 and Wang Gungwu, 1979:36-50).

In spite of this heterogeneity, their importance in Southeast Asia has been recognised largely because of the important economic roles they play in their resident countries. It was in fact this economic preponderance especially over the indigenous peoples in the ASEAN countries that aggravated the differences between the Chinese and the indigenous peoples, leading to serious racial conflicts time and again.

The Overseas Chinese policy pursued by the Kuomintang (KMT) in the early twentieth century left behind a legacy of mistrust about the loyalty of the ethnic Chinese to their resident countries. Following the 1911 Revolution, the KMT maintained a strong interest in the overseas Chinese because it had begun virtually as an Overseas Chinese Party and also because it still looked to them for finance. The KMT began to initiate various policies such as promoting Overseas Chinese education, attempting to register all Chinese abroad, and mustering their support for the construction of a Republican China (Suryadinata, 1985:24-25).

In 1926, the Nationalist Government of China laid down three basic objectives in its Overseas Chinese policy: to devise ways

in which the overseas Chinese would have equal treatment in their countries of residence; to facilitate the return of children of overseas Chinese to study in China; and to give special guarantees to overseas Chinese who wished to establish industries in China. In 1929, the Nationalist Government promulgated a Nationality Law based on the principle of *jus sanguinis*, that is, any person born of a Chinese father or of a Chinese mother where the nationality of the father was unknown or indeterminate was automatically a Chinese citizen. (In short, this meant classifying almost any people of Chinese descent as their citizens.)

The Chinese Communist Party (CCP) was not totally devoid of any links with the overseas Chinese in Southeast Asia before 1949. They were also involved in soliciting financial assistance and mobilising support for the anti-Japanese struggle in China. In fact it was believed that the extent of atrocities committed by the Japanese when they occupied Malaya and Singapore was in retaliation for the active support given by the Chinese in these two countries for the anti-Japanese struggle in China.

The CCP's Overseas Chinese policy immediately after 1949 considered all ethnic Chinese as the nationals of China. The People's Republic of China's (PRC) policy towards overseas Chinese was reflected in Article 56 of the Common Programme of 1949. Article 56 stated that "the PRC would do its utmost to protect the proper rights and interest of Chinese residing overseas." When the first Constitution of the PRC was adopted at the First National People's Congress in 1954, it stipulated a

policy similar to that of the Common Programme on overseas Chinese. Article 98 of the Constitution stated that the PRC "protects the proper rights and interests of Chinese residents abroad." Other policies adopted by the Chinese Government allowed for Chinese who had taken up citizenship in another country to enter China without a visa and to regain Chinese citizenship if they moved back to China. The overseas Chinese were also called upon to contribute towards the reconstruction of China through remittances, investments and any other means.

This posed a serious problem to many ASEAN states which upon gaining independence had to face the arduous tasks of national construction themselves and had to tackle issues related to ethnic, religious and economic activities. The existence of overseas Chinese who did not easily assimilate to the indigenous culture but at the same time wielded considerable economic power caused many difficulties for the local governments and also for China when it tried to woo the friendship of these countries.

Handwritten notes:
1. Many
2. and
3. and
4. and

After assessing the result of its overseas Chinese policy from 1949 to 1956, some observations made by China prompted it to change its policy towards the overseas Chinese. Firstly, the CCP discovered that the overseas Chinese were divided in their attitudes towards China. Not many of them paid allegiance to Beijing and embraced the Communist ideology. Besides China was no longer able to influence the overseas Chinese through education as the Kuomintang did prior to the Second World War. This was because the governments in South East Asia in their nation-building efforts has forced more and more ethnic Chinese to

receive a local education - a move towards greater assimilation or Southeast Asianisation of the population. Indonesia, for instance, closed down all the Chinese-medium schools and banned all Chinese publications (Suryadinata, 1985:15-23).

There were also indications that the remittances were not as large as expected and the economic value of the overseas Chinese was no longer very high. Furthermore, several overseas Chinese who returned to China did not fit in well to the Chinese society and hence created some social problems in China. Last but not least, the national governments of Southeast Asia increasingly resented the ethnic Chinese and became more suspicious of China's intentions because of its ties with the overseas Chinese. This in turn affected China's relations with these countries which were perceived as important to China's national security. Therefore, when China realised that the ethnic Chinese question had been obstructing the smooth conduct of Beijing's foreign policy, a new strategy was adopted (Suryadinata, 1985:62-3).

By 1957, the Chinese government began to encourage the overseas Chinese to integrate into their respective local communities by taking up local citizenship and receiving local education. They were also discouraged from returning to China (FitzGerald, 1973:134). There was in general a decreasing concern for the problems of the overseas Chinese as China sought to improve relations with the ASEAN governments and as China wrestled with its own problems of national construction. The period of the Cultural Revolution brought further neglect to the affairs of the overseas Chinese. No new policy towards the

overseas Chinese was introduced even after the official ending of the Cultural Revolution in 1969.

This low-key posture with regards to the overseas Chinese issue must be seen in the context of renewed Chinese efforts to court the friendship of the ASEAN countries after the pronouncement of the Guam Doctrine by President Nixon. Concerned that the Soviet Union would exploit the racial issue to fuel ASEAN's mistrust of China, China adopted a policy similar to that of 1957, encouraging overseas Chinese to take up the citizenship of their resident countries.

The first public sign of Beijing's revival of interest in the overseas Chinese was reflected in a statement made by Vice-Premier Deng Xiaoping on 29 September 1977 in which he mentioned that he wanted Overseas Chinese affairs to be part of the agenda when he met domestic overseas Chinese delegates during the National Day celebrations (Suryadinata, 1985:68-9). An editorial entitled "Attention must be paid to the Overseas Chinese affairs" which appeared in the Renmin Ribao on 4 January 1978 argued that China regarded the overseas Chinese as part of the Chinese nation and called for the formation of "the broadest patriotic united front among the overseas Chinese." Although China still encouraged the overseas Chinese to become citizens of the country of their residence, the editorial noted that while those who acquired foreign citizenship were no longer citizens of China, "they are still our kinfolk and friends" (Beijing Review, No. 3, 20/1/78; Renmin Ribao 4/1/78). The editorial further urged the overseas Chinese to abide by the laws and decrees of the

countries in which they lived, but it also appealed to the Southeast Asian governments "to protect the rights and interests of overseas Chinese and respect their national tradition, customs and habits."

The revival of China's interest in the Chinese abroad seemed to be linked to Chinese domestic politics, in particular the emphasis by Deng's leadership on economic development and modernisation. In the post-Mao period, ethnic Chinese living abroad once again were cast in the role of potential major contributors to China's development. In this connection, Leo Suryadinata has argued that the policy was aimed not at Southeast Asian Chinese alone. It also included the Chinese in North America and Europe. In terms of absolute numbers, although the Chinese in North America and Europe were not as many as those in Southeast Asia, their usefulness to China appeared to be much greater in terms of the skills and resources they possessed. The Chinese in the West were thus seen as a source of development for China and the Chinese leaders had them in mind when formulating the new Overseas Chinese policy (Suryadinata, 1985:72-3).

Lucian Pye also noted that the revival of interest in China following the Sino-American detente, the "American Chinese have been in the forefront in providing different kinds of help to the PRC in terms of their development, and it is likely that this trend will continue" (Pye, 1980:29). He further noted that the new overseas Chinese policy of the PRC would enable the American Chinese to export technological skills and business to China. Thus it appeared that the need for capital, technological

expertise and entrepreneurial skills in its drive for modernisation was utmost in the minds of Chinese leaders when pushing for the resumption of ties with the overseas Chinese.

However, China's efforts in trying to woo the ethnic Chinese investors caused some misgivings within some ASEAN states. Malaysia, for instance, felt that appeals based on narrow ethnic grounds to all professional Chinese and businessmen to contribute their expertise and capital to China's modernisation was at best, insensitive to the political realities of the ASEAN countries, and at worst, caused the ASEAN governments to question Chinese motives and cast doubts on the loyalty of their Chinese communities (Leong, 1987:1113).

In addition, the ASEAN governments feared that by calling upon the overseas Chinese to contribute to China's economic modernisation would imply a reciprocal obligation for China to aid the overseas Chinese in case they became objects of persecution in their resident countries. This would mean China could use the "protection of the rights and interests of the ethnic Chinese" as a pretext for intervention in the internal affairs of the ASEAN states (Levine, 1984:134-5).

It is, however, unlikely that Chinese businessmen from the ASEAN countries would invest in China out of the simple "altruistic or patriotic" reasons of helping China to modernise. Chinese businessmen like any businessmen look for profits. Investments made in China would be based on the calculated risks and returns. In fact, studies done by Leo Suryadinata show that

ASEAN Chinese businessmen invest more within the region and the West. Investments in Hong Kong are also high but have begun to decline since the announcement of China's decision in 1982 to recover the sovereignty of Hong Kong (Suryadinata, 1985:95-97).

Although China's exploitation of ethnic Chinese sentiments to serve its interests such as remittance of money or investment in China met with little success, ASEAN governments, particularly in Malaysia and Indonesia remained suspicious. The ethnic Chinese in these two countries have been held in considerable suspicion. Both the Indonesian and Malaysian governments have taken discriminatory policies to reduce the political and economic power of their ethnic Chinese minorities. The feeling that Beijing has sought to manipulate ethnic solidarity for its own purpose persists. With economic modernisation in China, the ASEAN governments were not so fearful of the attractiveness of China's communist ideology to the ethnic Chinese. Instead, they feared that increasing contacts between their ethnic Chinese and China would allow them to compare the status they enjoyed in their resident countries with that of returned overseas Chinese in China, leading to resentment and dissatisfaction. Also the emotional and cultural attachment to China by ethnic Chinese could not be totally eliminated (Levine:133-134).

Both the Kampuchean issue and China's open door policy have created the conditions for increasing contacts between top-level Chinese officials and leaders from the ASEAN countries. Such contacts and exchanges have made the Chinese leaders more aware

of the sensitivity of the ethnic Chinese issue to the ASEAN countries. Thus, for instance, after Deng Xiaoping's visit to ASEAN in 1978, Chinese official documents began to differentiate the use of Huaren (to refer to Chinese overseas who have taken up local citizenship) and Huaqiao (Chinese nationals residing overseas) (Suryadinata, 1985:3-4).

Though Beijing has taken pains to convince ASEAN that her policy toward the Overseas Chinese remains unchanged and there is no intention in the part of China to intervene in the affairs of other countries, the fear, especially of the Malaysian and Indonesian governments, that these communities constitute Trojan horses that could be manipulated at China's behest remains.

1.5: CHINA'S CLAIMS OVER THE SPRATLY ISLANDS IN SOUTH CHINA SEA

The various islands scattered in the South China Sea have attracted the attention of littoral states in the region because of their economic and strategic potential. These states have contested their ownership both politically and militarily. The disputed islands in the South China Sea can be divided into four broad groups - the Macclesfield Bank; the Pratas Group; the Paracels Group and the Spratly Group.

Besides being geographically scattered, the Spratly Group is also the most politically divided. The islands in the Spratly Group are claimed and occupied by four Southeast Asian states. Presently, Philippines occupies eight islands of the Kalayaan

group off the island of Palawan; Malaysia occupies three coral reefs off the coast of Sarawak - Terumbu Layang Layang, Mantanani and Ubi Atolls; Indonesia occupies the Natuna islands; Amboyna Cay is occupied by Vietnam and Taiwan also occupied some of the islands. On top of this, China claims the whole group. The potential for military conflict over these islands is thus very real because the ownership of the disputed islands in the South China Sea and yield considerable economic and strategic benefits for the occupying states.

Economically, the South China Sea teems with edible marine life. Fishing in this region is reported to be still under-developed when compared to its potential. Large quantities of guano are present too in the islands in the South China Sea. However, the fishing potential and guano deposits are pittance when compared to geological reports of potentially vast resources of oil and minerals in the region. This is by far the most lucrative attraction with regards to ownership of the islands. The right to exploit the potential wealth present in this continental shelf is tied closely with the developments in the United Nations Convention on the Law of the Sea (UNCLOS) II. The 200 nautical mile Exclusive Economic Zone would give the states the sole rights to exploit the wealth in their Exclusive Economic Zone.

From the strategic point of view, the islands in the South China Sea could be used as a springboard for naval and air offensives against any of the littoral states. Japan demonstrated this during the Second World War by using Ibu Atu of the Spratly

Group as a submarine base to interdict Allied shipping forces and as a supply base. The Spratly Group is strategically located to allow control of all shipping movements in the South China Sea because of the islands' proximity to shipping lanes, for instance, the Singapore-Hong Kong route. Control of these islands would enable the control of these shipping lanes in the South China Sea, which ranks among the world's busiest with more than 30,000 ships passing annually. More specifically, the islands could serve the following functions : serving as bases for communication, weather observation and reporting; supporting or countering nearby fishing and related economic activities; and supporting intelligence gathering and the projection of military power into the sea and air spaces in their vicinity.

Although China has long proclaimed sovereignty over all the Spratly islands in the South China Sea, for a long time China did not take any concrete actions to occupy the islands. Prior to 1988, for instance, China did not possess a single island in the Spratlys. But a revival of interest and a more assertive posture with regards to the claims of these islands were evident in the 1980s.

It is clear that China intends to establish a permanent presence in the Spratlys. Delay in taking any concrete actions could be due to factors such as limited capabilities and preoccupation with other priorities. For instance, in the late 1970s and early 1980s, at the height of the Kampuchean conflict, China did not wish to alienate any ASEAN states. Thus claims for jurisdiction in the South China Sea were suspended for some time.

Chinese activities in the Spratlys have been stepped up in recent years. In May 1984, China conducted a series of naval exercises in the South China Sea. During these exercises, two warships were deployed to the Spratlys on a probable reconnaissance mission, and amphibious landing operations were practised in the South China Sea area. Since 1984, Chinese research ships have also conducted extensive operations in the Spratlys. In the spring of 1987, China sent a seven-ship task force to conduct naval exercises in the Spratlys and B6 bombers overflew the Spratlys.

The greater interest demonstrated by China towards the South China Sea islands may be due in part to the fact that Chinese leaders have perceived that the time is propitious to assert the claims based on its growing naval capability. Military modernisation now enables its vessels to operate further away from the Chinese coast. The search for vast resources of oil in the South China Sea to replace its fast-depleting on-shore oil resources strained by increasing energy needs in the face of rapid economic modernisation is an additional reason for China taking more concrete actions to stake its claims over the Spratly islands.

With this aim in mind the Chinese have developed a naval strike force in the South China Sea. China's move in 1987 and 1988 towards the Spratly Islands which included naval exercises, surveys and reconnaissance activities was probably a reflection of its confidence in a newly acquired capability. Beijing also feared that a delay in taking control of the Spratlys would only

make it more difficult in the future. As it is, Vietnam has begun to upgrade its defences on those islands it occupies. Older weapons have been replaced. The Vietnamese have also added additional tanks, artillery and anti-aircraft guns and have constructed new buildings and weapons positions.

From January 1988, China began building a maritime observation station in the South China Sea on a spit of land called Yongsau Island (Straits Times, 13/6/88). China also began to station troops on eight islands and build military installations on two reefs (Straits Times, 8/4/88). At least three Task Groups with ships from China's North, East and South Sea Fleets took part in the large scale operations of transferring personnel, equipment and materials to the Spratlys for the construction of various military outposts. Vietnam reacted to China's activities by occupying at least four new reefs.

By mid-March 1988, China had constructed another outpost and was conducting survey operations on a reef four nautical miles from an unnamed cay occupied by Vietnam in the Union Bank region. Chinese Press reports indicated that this reef (known as Chigua reef to the Chinese) was the scene of the 14 March incident that resulted in Chinese forces engaging Vietnamese forces, who also landed on the reef. The Chinese frigates patrolling the area reportedly fired on and sank as many as three Vietnamese supply ships (Bangkok Post 7/4/88).

These clashes between Vietnam and China in early 1988 have

raised the concern of the ASEAN countries, especially those who have a stake in the South China Sea islands. China cannot resort to force to eject the Vietnamese without alarming ASEAN and affecting relations with the regional organisation. However, the reactions of different ASEAN states differed. For instance, Thailand's interests do not lie in the islands in South China Sea and its leaders may in fact welcome the additional pressure placed upon Vietnam as a means of curtailing the latter's expansion. The clashes in the South China Sea have been portrayed as an extension of the Sino-Vietnamese conflict in Indochina. On the other hand, Malaysia would be deeply worried as it occupies islands that are within the boundaries of China's claim. The Chinese stand that issues with any ASEAN states can be negotiated or shelved for the time being raises fears that it could deal with competitor-claimants one by one, and the use of force could not be totally ruled out (Buszynski, 1988:8).

Though the demands of the civil sector of the economy were such that military modernisation has been accorded lower priority, nevertheless, modernisation of the People's Liberation Army (PLA) has gone ahead in many ways. The "open door policy" has also contributed significantly. Firstly, closer study of advanced military experience in other countries has helped to familiarise China's military planners with the requirements of modern warfare. Secondly, China has acquired from the West advanced radar, computers and other civil-military advanced technology and equipment related to surveillance, air defence and aerospace. Thirdly, China's naval capabilities have been greatly

upgraded (Yahuda, 1983:163).

With the aim of converting the People's Liberation Army (PLA) into a more conventional force, the emphasis for the past ten years has been on its ability to project its military power beyond its frontier. Thus one area which was given priority was the development of a blue-water navy. Newer and more capable ships have been added to the South Sea Fleet. The Chinese has also developed a naval strike force in the South China Sea whose specific purpose may be to assert territorial claims to that area, as well as a marine corps unit of some 56,000 (Straits Times, 13/6/88).

With increased capabilities, Chinese naval vessels are able to operate further away from the China coast and they have been sighted more and more often in the South China Sea around the vicinity of the Spratlys. Both Malaysia and Indonesia have expressed concerns over the activities of the Chinese naval craft in the South China Sea. Already Malaysia has responded to this development by sending more military reinforcements to Terumbu Layang Layang and stationing more fighter aircraft in Labuan Air Base, an air base in Sabah close to Terumbu Layang Layang. It has also moved towards upgrading its naval capabilities and building up a submarine force. Indonesia has also planned to upgrade its military facilities in Natunas.

The modernisation of China has prompted it to assert its claims over the Spratly islands in a more forceful manner. It has represented not only a challenge to Vietnam, but also to

Indonesia, the Philippines and Malaysia, a challenge that has both strategic and economic consequences. China has always been sensitive on issues of territorial integrity. Historical records have shown China to be a tough negotiator over disputed territories. Thus ASEAN is really concerned about finding a solution to this problem (Pye, 1982:172).

Thus, ironically, while economic modernisation of China in the last ten years has helped to propel Sino-ASEAN relations to a higher ground, reducing suspicions in the ideological dimension, the fear of China increases from another source - its military modernisation. The ASEAN states will become more anxious with the appearance of more Chinese naval vessels in the South China Sea. The likelihood of China resorting to force to settle territorial disputes is very real. This can be seen in the series of clashes with the Vietnamese in early 1988. Although the conflict has not escalated and China for both strategic reasons and domestic economic requirements has not resorted to force to eject Malaysia out of Terumbu Layang Layang and the Indonesians out of Natunas, the claims over the Spratly Islands will be a major area of security concern for ASEAN in the near future. China has since 1988, stationed troops on eight of the islands and built military installations on two reefs. The Chinese-Vietnamese clash on 14 March 1988 highlighted the dangers of future conflict over the islands in ways that could affect not only the regional stability and the strategic environment of ASEAN, but also the immediate interests of some of the ASEAN countries.

3.6: FACTORS AFFECTING CHINA'S GENERAL POLICY TOWARDS ASEAN

In conclusion, since 1978, both strategic and domestic reasons have brought China and ASEAN closer together than they would normally be. The Soviet-backed invasion of Kampuchea was the most immediate reason behind the move by China to be more accommodative towards the ASEAN countries. The Kampuchean issue created a convergence of interests between China and ASEAN. Both were wary of the expansionist designs of Vietnam, which appeared very real at that juncture. Sino-ASEAN mutual understanding has been improved through their common opposition to Vietnam's aggression in Kampuchea.

As both China and ASEAN sought to improve relations and formed a "united front" against the Soviet-Vietnamese alliance, both parties were more willing to accommodate each other on certain sensitive issues. This was especially true for China who was anxious to have the ASEAN countries on its side. China thus reduced its support for the ASEAN Communist parties. This was seen not only in the reduction of material aid, but also reduction of Chinese media coverage of their activities, the downplaying of any exchanges between CCP and the ASEAN communist parties, and most important of all, the closing down of clandestine stations such as the Voice of People's Thailand and Voice of Malayan Revolution which were based in China. All these were done to reassure the ASEAN countries that China would not engage in subversive activities to threaten ASEAN's security. The maintenance of unobtrusive moral links with the ASEAN communist parties was deemed necessary to prevent these parties from

turning to Vietnam for sponsorship and coming under the latter's influence.

The ASEAN countries are, of course, not entirely convinced by China's reassurances that it would not use its links with the outlawed communist parties or use the ethnic Chinese issue to interfere in their internal affairs. Most of them still regard China as a long-term threat to their security.

However, some ASEAN countries, particularly Thailand were more willing to accept China's reassurances. As a frontline state in the Kampuchean conflict, Thailand's relations with China have improved significantly with the latter openly declaring that China would definitely come to Thailand's assistance in the event of a Vietnamese attack on Thailand. China's willingness to use force against Vietnam as displayed in the 1979 punitive war against Vietnam made China an important security guarantor for Thailand. In 1987, China and Thailand even signed an arms agreement in which the former would supply tanks, armoured personnel carriers and other small arms and ammunition to Thailand at friendship prices.

The Kampuchean issue may have resulted in a "marriage of convenience" between China and the ASEAN states, but the pursuit of domestic economic modernisation in China created a real desire on China's part to maintain stable and peaceful global and regional environments. An unstable regional environment would distract the Chinese from the tasks of modernisation. The increased emphasis on trade (because of an export-oriented

industrialisation strategy) and the need for foreign investments, capital and technology required extensive international diplomatic relationships. The search for more markets and the increased participation in more and more regional and world organisations such as the International Monetary Fund, the World Bank and the Asian Development Bank meant that China had to act within certain international rules and regulations in order to secure loans and assistance. The greater openness to the outside world meant a more predictable China.

In addition, ASEAN constitutes a fast growing community of more than 250 million people - an obvious market for exporting countries and a source of key raw materials such as rubber, palm oil and timber - not to be ignored by a China going full-steam on its economic modernisation. This is especially so since China enjoys trade surpluses with the ASEAN countries. The trade surpluses from its trade with ASEAN are an important source of revenue used to cover China's trade deficits with the advanced nations.

It is thus in China's interests to have ASEAN countries who are politically stable and economically strong. Viewed from this perspective China would not want to engage in subversive activities that could threaten ASEAN's security. And indeed, China has acted with prudence in its relations with the ASEAN states, emphasizing the improvement of state-to-state relations and being more sensitive to issues that are of concern to them.

Though military modernisation has been accorded the lowest

priority during the last ten years of China's modernisation, the People's Liberation Army (PLA) has also benefitted from the open-door policy. More advanced weapons have been acquired, and the PLA has been more exposed to the tactics and strategy of modern-day warfare. The emphasis in the last ten years of military modernisation was on the build-up of a slim, professional fighting force, able to project its power beyond China's frontier. The development of a blue-water navy is one example of this.

With increased naval capability since 1987, China has begun to assert its claims over the Spratly Islands in a more forceful manner. It clashed with Vietnamese forces on a few occasions (this can actually be seen as an extension of the Sino-Vietnamese conflict in Indochina) and took concrete measures to occupy some of the islands by building military installations and stationing some troops on them. But it has continued to act with restraint and did not escalate the conflict to a wider scale. It has also refrained from using force to claim any of those islands occupied by the ASEAN states. This is because China did not want to alienate the ASEAN states at this juncture. However, there is fear amongst some ASEAN countries, particularly Malaysia and Indonesia, that once the Kampuchean issue is resolved, and China no longer requires ASEAN's support, it could be more assertive and act to claim all the Spratly islands, regardless of who occupies them.

In ASEAN's eyes a modernising but not a modernised China is a positive factor in its security. It is only when China is

preoccupied with the tasks of modernisation, when it has to keep its doors open for investments, trade and so forth, that the ASEAN countries feel more comfortable dealing with China. Thus China's modernisation for the past ten years from 1978-88 has been seen as contributing to the maintenance of security of this region to some extent.

CHAPTER THREE: REFERENCES

1. Michael Yahuda Towards the End of Isolationism: China's Foreign Policy After Mao (New York: St Martin's Press, 1983)
2. Jay Taylor China And The Southeast Asia: Peking's Relations With Revolutionary Movements (New York: Praeger, 1974)
3. Kenneth Lieberthal "Domestic Politics and Foreign Policy" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, (New Haven & London: Yale University Press, 1984), pp 43-70
4. Steven Levine "China in Asia: The PRC as a Regional Power" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, (London & New Haven, Yale University Press, 1984), pp 107-145
5. Michael Yahuda "China's Foreign Relations and the Modernisation Programme" in Jack Gray & Gordon White, ed., *China's New Development Strategy* (London: Academic Press, 1982) pp 37-54
6. Jonathan Pollack "China's Relations with East Asia and the Pacific Region: Part 1" in *Adelphi Papers No 217*, Spring 1987, (London: International Institute for Strategic Studies) pp 56-74
7. Sheldon Simon "The Two Southeast Asia and China: Security Perspectives" in *Asian Survey*, Vol. XXIV, No. 3, March 1984
8. Banning Garrett & Bonnie Glaser "Chinese Assessments of Global Trends and the Emerging Era in International Relations" in *Asian Survey*, Vol. XXIX, No. 4, April 1989
9. Khaw Guat Hoon An Analysis Of China's Attitude Towards ASEAN ISEAS Occasional Paper No. 48, (Singapore: Institute of Southeast Asian Studies, 1977)
10. Donald Weatherbee "The Indigenisation of ASEAN Communist Parties" in Charles E Morrison, ed., *Threats to Security in East Asia-Pacific* (Massachusetts, DC Heath & Co, 1983) pp 161-183

11. Leo Suryadinata China And The ASEAN States: The Ethnic Chinese Dimension (Singapore: Singapore University Press, 1985)
12. Wang Gungwu The Chinese Minority In Southeast Asia
Southeast Asia Research Paper Series 1,
(Singapore: Singapore University Press, 1978)
13. Stephen Leong "Malaysia and the People's Republic of China in the 1980s - Political Vigilance and Economic Pragmatism" in *Asian Survey* Vol. XXVII, No. 10, October 1987
14. Leszek Buszynski ASEAN: Security Issues Of The 1990s
Strategic and Defence Studies Working Paper No 165, (Canberra, Australian National University Press, 1988)
15. Lucian Pye "China and Southeast Asia" in Robert Scalapino & Jusuf Wanandi, ed., *Political and Security Issues in Southeast Asia in the 1980s*, (Berkeley: Institute of East Asian Studies, 1982)

CHAPTER FOUR

ECONOMIC IMPACT OF CHINA'S MODERNISATION ON ASEAN

4.1: INTRODUCTION

A commitment to economic modernisation has led China's post-Mao's leadership to increase the level of foreign trade, welcome foreign loans and investment, and undertake a wide range of new international economic relationships. These new foreign economic policies are closely linked to a set of sweeping domestic economic reforms.

China's foreign trade policy is interwoven with international and domestic politics. Foreign trade is not simply an exchange of goods in the economic sense; it is also an expression of friendship and reflects dominance or subordination in the political sense. Ideological, political and strategic factors influence the direction and level of trade, and determine the role of foreign capital and foreign technology in the development of a country's economy.

Similarly, Sino-ASEAN's economic relations are not conditioned by pure economic factors alone. History, ideology and strategic factors were (and will probably remain as) active agents in the overall Sino-ASEAN relationship. Economic relations were very much affected by the state of political relations. At the same time, China had also made use of economic tools (such as the sales of oil to Thailand at friendship prices) to win the friendship of the ASEAN countries.

This chapter will examine if and how ASEAN economic relations with China have changed as a result of China's modernisation drives. Is China's economic relations now governed more by economic considerations or is it still as clouded by politico-strategic factors as before? How much impact, if any, does China's modernisation have on the ASEAN economies? To begin with, I will compare China's economy with those of ASEAN, so as to assess the economic complementarity or competitiveness of their economies, and then the economic impact of China's modernisation.

4.2: CHINA'S ECONOMY

China's participation in the international economy since its establishment in 1949 could only be explained if we understand the structural and institutional characteristics of its domestic economy and the national goals which the leadership has set for itself.

Bruce Reynolds (Reynolds, 1984: 72-79) provided us with a framework which gave us some insight as to why China behaved in certain ways with regards to its foreign economic relations.

Firstly, the structural characteristics of China's economy conditioned some of its policy choices. Although accorded the status of a great power because of its huge population and military force and its possession of nuclear weapons, there is no doubt that China is still economically underdeveloped, a fact

which the Chinese leadership itself has acknowledged in recent years. Although its per capita income has risen in recent years, it is still somewhere between US\$300 to US\$500. It remains largely an agricultural country. Being a less developed country (LDC) means that it faces a set of problems common to all LDCs such as high illiteracy, technically backward population, urban-rural income disparities, problems of rural migration, and so on. Being poor means that its ability to import may be hampered. At the same time, because of its huge population and lack of technical experts and skilled labour force to compete in the high technology industries, its comparative advantage in the industrial sector lies in the production of labour-intensive products.

However, unlike a lot of LDCs, China has a continental economy. It can find a whole range of resources which the economy requires within its own borders. Arable land makes up one-tenth of the total area, and its major industrial cash crops include cotton, silk cocoons, tung oil, kenaf and jute. China also has rich mineral reserves such as coal, iron, petroleum, rare earth, magnesite, tungsten, antimony, bauxite, zinc, tin, lead and mercury. Its coal exports totalled 7.57 million tons, the highest in Asia. Petroleum output reached 125 million tons in 1985, the sixth highest in the world and its export volume amounted to over 30 million tons.

Though richly endowed China still has to import some raw materials such as rubber, copper, aluminium, timber which are either not found or only in small quantities in China. In 1960,

for instance, China imported 107,000 tons of natural rubber, 112,000 cubic metres of timber and 74,000 tons of copper. With the growth in economy, these increase to 205,000 tons, 8.238 million cubic metres and 311,000 tons respectively, in 1984 (Guo, 1987:63).

Having a big, continental economy also implies that the ratio of trade to Gross National Product (GNP) tends to be small. China had never been a major trading partner. For example, during the period from 1952-78, China's exports came to only 4-5% of its GNP and China accounted for only about 0.6% of the total volume of world trade. Most continental economies such as the US for instance, trades less than small countries.

Next, China's political ideology. China's Leninist ideology conditions the way her economy functions. Leninism requires state ownership of industry, central planning of the economy and the concentration of power in the hands of a vanguard Communist Party. An ideology which stresses the importance of the Party's vanguard role breeds stiff resistance to economic decentralisation. That is one of the main reasons why the recent economic changes introduced since 1978 continue to face problems of resistance.

Thirdly, we look into the national economic goals of China. Rapid growth, price stability, income equality and national self-sufficiency are the aims of many countries. However, the priority accorded to each differs. Some countries are willing to achieve rapid economic growth at the expense of price stability and

income equality. During different phases of China's internal development, depending on which group of people was in control, China has given different emphasis to these goals. For example, during the Great Leap years under Mao Zedong, these four goals were pursued at the expense of economic rationality. But when major problems surfaced, Liu Shaoqi took over the tasks of rebuilding the economy, and he was willing to forego the goal of income equality in the short run, in exchange for higher productivity and efficiency and hence higher growth.

In recent years, we also saw the pursuit of higher growth at the expense of income equality and self-reliance. Since 1978, the priorities of the economic goals of China have changed. The goal of modernisation is now almost equated with achieving rapid economic growth. Efficiency and productivity are taken as the keys to higher growth. Efficiency is emphasized at the expense of self-reliance and productivity at the expense of equality.

Foreign debts has been increasing. China has become more and more dependent on foreign investments and foreign trade for its economic growth. It has created for itself a situation of dependency and opened itself up to exploitation by the advanced economies. Income disparities have widened, between different regions, different households, between the urbanites and the rural population.

Last but not least, we look into the economic institutions in China. China has had for many years, a central planning system responsible for the running of the whole economy. Under this

system, most industries were state-owned and all were subjected to tight restrictions by government planning agencies, which set the enterprises' annual production plans, controlled the size of their labour force, allocated key inputs, distributed their outputs and determined their prices.

The foreign trade sector was run in the same manner. Enterprises or other units which wished to import foreign goods must work through administrative channels, receiving permission from the foreign trade bureaucracy in Beijing. Exporters did not interact directly with foreign markets; they were insulated from their buyers by the state corporations through which all foreign importers must work. Export then was not an end in itself but a means to pay for imports. Foreign trade was the balancing sector in the economic plan, with imports making up for shortfalls in domestic production, and providing goods that could not be produced economically in China (Lee, 1982:41).

China's manufacturing sector until recently focused on import-substitution, the development of heavy industries and the production of investment goods rather than consumer goods. Under this industrialisation strategy a typical trade pattern was large imports of machinery and industrial raw materials, financed by exports of agricultural products. Imports of consumer goods were restricted. (op.cit., 103)

China, until recent years, has an inward-looking economy and has been quite self-sufficient. However, economic reforms since 1978 have shifted China towards a more market-oriented and open

economy. Fundamental changes have taken place in China's industrial and trade policies since 1980. The new policy is more outward looking and emphasizes comparative advantage in contrast to the earlier stress on import substitution (Chia, 1987:89&104).

Indeed, Chinese activity in the world market has increased significantly since 1978. In the ten years since it launched its economic reforms in 1978, China had developed into one of the world's fastest growing economies. The pursuit of an open door policy and corresponding changes in its approach towards foreign economic relations had seemingly opened up great opportunities for the outside world. Chinese leaders under Deng believed that the country would need considerable foreign financial and technological assistance if it was to achieve the goals of modernisation. Therefore a concerted effort was made to attract foreign investments (Table 4.1 shows the growth of foreign investments over time), to expand trade (Tables 4.2A and 4.2B reflect the expansion of foreign trade with Table 4.2B showing the slight increase in China's trading volume in the world market), to acquire loans and credits and to import capital goods and foreign technological know how.

Although many changes in the economic arena had been implemented, the changes in the structure and institutions of China's polity were somewhat slow and were not keeping pace with the economic changes. This in turn constrained the move towards the goal of economic modernisation. The Leninist political ideology of concentration of power in the hands of the Communist Party is, the main obstacle of the recent economic reforms.

Economic reforms cannot proceed any further without corresponding changes in the political arena. The Tian An Men incident on 4 June 1989 highlighted this conflict.

Before proceeding to discuss the economic impact of China's modernisation on ASEAN, let's look into the economies of the ASEAN countries. In this discussion, Brunei has been deliberately left out of the analysis because of its relative insignificance in view of its small population and size, (Brunei has a population of approximately 200,000). Although a rich country by world standard (with a per capita income of US\$10,000), it is a relatively young country having achieved full independence on 1 January 1984, whose economic and political significance in the regional scene is negligible. Also because of its newly independent status, much of the historical analyses prior to 1984 would not be applicable to Brunei.

4.3: THE ASEAN ECONOMIES

Although differences exist in the economies of the various ASEAN member states, some generalisations could still be made. The ASEAN economies are typically open and outward looking, deriving a large proportion of their GNP through foreign trade. Foreign investments play a crucial role in the growth of the ASEAN economies by creating employment and making available capital, technology and access to foreign export markets (Wong, 1984:10).

A large proportion of ASEAN's primary commodities are exported to the industrial markets of advanced economies. And all ASEAN members because of their small domestic markets, were eventually forced to switch from import-substitution strategy to the strategy of export-driven industrialisation (Chan, 1989:53).

The efforts to promote industrialisation, so as to diversify the economies from over-reliance on primary products, and the desire to have a modernised and independent economy, led to industrialisation strategies based initially upon import-substitution. Import-substitution refers essentially to the policy of reducing or eliminating the import of foreign goods through tariffs and quotas and reserving the domestic markets for local production. Import-substitution industries are usually set up to produce simple, low-priced consumer goods using imported machinery and cheap local labour. The ASEAN countries differed in the extent and duration of their import-substitution policies before eventually shifting to the export-oriented industrialisation (Tong, 1987:95-6).

The ASEAN countries now differ in the degree of export-orientation of their manufacturing sectors. The difference in timing of the switch from import-substitution to export-oriented industrialisation, accounted in part for the differences in their current state of industrialisation. Singapore is the most export-oriented, having experienced only a limited phase of import-substitution in the early 1960s. With Singapore's separation from Malaysia in 1965, it was clear that Singapore lacked the domestic market for a viable import-substitution programme. Therefore, it

started off with an export-oriented industrialisation drive.

The Singapore Economy

Manufacturing, contributing 24.9% to Gross Domestic Product (GDP) in 1986, is the most important sector of the Singapore economy, followed by financial and business reserves (21.6%), commerce (17%), and transport and communications (14.3%). The distinguishing feature of the Singapore economy, however, resides not in its sectoral composition but its external orientation and extent of foreign participation. Direct exports constituted 61% of manufacturing output in 1984, and of these 82% were by foreign owned establishment which also accounted for 53% of manufacturing employment, 63% of value-added and 71% of gross output (Chng, Low and Toh, 1988:103).

Within a span of twenty years, Singapore has added various new pillars to its economy. Its manufacturing sector exports a varied range of increasingly more sophisticated products to world markets. Trade in services contributed 60% of GDP in Singapore in 1984 and is expanding and growing in importance.

Its dependence on the region and hence its vulnerability to the policies of its neighbouring countries has been reduced. ASEAN's share of Singapore exports has shown a sharp decline from 44.8% in 1965 to 20.9% in 1986, while the share of Northeast Asia, especially Japan has risen sharply from 9.4% to 21.4%. The share of the US market has also increased dramatically from 4.2% to 23.3%, but the share of the European Community (EC) has fallen

somewhat from 13% to 11.1%. Thus over the years, Singapore has greatly diversified from its overdependence on the region to wider and more varied markets around the world. This also implied greater direct exposure to the ups and downs of the world economy (Chng, Low and Toh, 1988:134-5).

International trade is thus the lifeblood of the Singapore economy. Its economic miracle would not have been possible without the sustained boom in the world economy which began in the early 1950s, a boom fed by an even faster rise in world trade and investment. When international trade surges, the Singapore economy soars; when world trade slows, the Singapore economy falters. The amount of buffer provided by domestic demand management is rather limited. Thus in the global recession of the early 1980s, when Singapore's export growth declined sharply, GDP was kept up for a time by domestic demand, but when the 1983/84 US-based upturn in world economy was not sustained, the Singapore economy tumbled, recording a minus growth in 1985, after twenty years of uninterrupted growth (op.cit., 135-7).

Given the external dependence, the nightmare for Singapore would be a breakdown of the liberal trading system, a resultant shrinkage in world trade and the onset of world depression. Thus the maintenance of a liberal world economic order is of paramount importance to Singapore.

The Malaysian Economy

Malaysia started with import-substitution industrialisation

in 1958 and switched to export manufacturing in the late 1960s. The development of the manufacturing sector is an integral part of its overall economic diversification programme.

After more than a decade of import-substitution industrial development, a number of structural or policy problems surfaced. To begin with, the Malaysian economy is too small to support technically optimum-sized and efficiently competing firms. The limitation of domestic markets ruled out certain lines of industrial production unless they were set up with a view to the export market. Malaysian leaders thus decided that further industrialisation would have to be export-oriented (Wong, 1979:65).

Despite advances in the export of some manufactured products, about 60% of Malaysia's export earnings still come from commodity exports. The main primary exports are rubber, oil palm, tropical hardwood and tin. Oil, copper and iron are also important exports. In contrast, the manufactured exports are too narrowly based on a few products, particularly, textiles and electronics (which contributed some 63% of total manufactured exports in 1985, of which the semi-conductor assembly alone accounted for 36.2% (Salih, Piei and Sahathavan, 1988:66-7).

The weakness in the Malaysian economy was exposed during the world recession in the early 1980s. Up till the 1980s, primary exports had been the major source of growth for the Malaysian economy. However, since 1985, the primary sector failed to perform, following an across-the-board decline in the prices of

Malaysia's major exports, most notable being rubber, palm oil and tin. The price decline, unprecedented in recent history in terms of pervasiveness as well as the sharpness of the fall, had resulted in a 25.2% contraction in the commodity unit value index, and a loss of about M\$7.79 billion in commodity export earnings in 1986 and hence a fall in Malaysia's GNP. The economy thus faced serious dislocations (Salih et al, 1988:69-70).

In light of such massive economic problems, Malaysia adopted more liberalised investment policies in order to spur domestic investment and attract foreign investments, particularly in the manufacturing sector. This was crucial, since the sector has been identified to spearhead Malaysia's economic growth over the next decade, as the prices of primary commodities are likely to remain depressed for some time to come. Towards this end, the Malaysian government had since 1986 undertaken a series of measures which offered more attractive investment incentives, especially to foreign investors with less restrictions attached (Salih et al, 1988:99).

The Philippines Economy

The prime motivation behind Philippines industrialisation drive was very much the same as those of other ASEAN countries : the desire to diversify the economy from over-reliance on primary exports, to promote faster economic growth and to create more employment. Traditionally, manufacturing in the Philippines was

concentrated in the processing of raw materials such as sugar (Wong, 1979:67).

The trade and exchange controls of the 1950s created an economic environment favourable to full-scale import-substitution, as consumer goods industries profited from relatively free imports of capital goods (secured through the massive economic aid pumped into the Philippines by the US) and the high domestic price of finished products engendered by the system.

The foreign exchange needs of the import-substituting industries were satisfied mainly through the export of commercial agricultural crops. Philippines exports were then characterised by low-valued added products, excessive concentration on a few items, and continuing reliance on agriculture or agricultural-related products. Cash crops such as coconut and Manila hemp accounted for one third of total arable land. It is also a major producer of tropical timber. Most of its timber are exported after processing. Of recent, copper has also become an important export (Alburo, Medalla and Pailte, Jr, 1988:104-5).

With the saturation of the domestic market and exhaustion of the import-substitution phase of development, Philippines became more dependent upon imports and finally ran into a foreign exchange crisis. This coupled with the oil crisis in 1973/74, led to shifts in the structure and pattern of trade. Export-oriented industrialisation was encouraged. The share of manufactured products such as electronic components, garments, handicrafts and

footwear in exports increased from 8.3% in 1970 to 61.7% in 1985. The change in trade structure was not only confined to products, but markets as well. The principal destinations of Philippines remained the same, but their percentage shares in the Philippines market declined. In the early 1970s, both the US and Japan constituted 74% of Philippines' exports markets. By 1985, this had dropped to 44% with the slack being taken up by ASEAN countries, the socialist countries, HongKong, Australia and the Middle-east. For imports, the shares of both US and Japan declined from 57% to 39% during the same period (Alburo et al, 1988:105).

The Thai Economy

In Thailand, the urge for industrialisation was generated basically by the same set of conditions as the other ASEAN economies. Modern industrialisation process was supposed to start in 1954 following the enactment of the Industrial Promotion Act. However, there was a lack of industrialisation momentum then due to the acute shortage of capital, technology, infrastructure and entrepreneurs (Wong, 1979:77). Thus its industrialisation only got off the ground in the 1960s. Like the Philippines, it switched to export-oriented industrialisation only in the mid-1970s and most of its manufactured products are still tilted towards labour-intensive, low-value added products such as textile, footwear and so forth. In recent years, the share of manufactures in Thailand's trade has been increasing, finally reaching the 50% mark in 1986.

Agricultural products remain as important exports of the country. Rice, rubber, coconuts and oil palm account for almost half of the country's total export value. As for minerals, Thailand's traditional mining industry is in tin and tungsten (Guo, 1987:65).

The Indonesian Economy

Indonesia has still a relatively inward looking manufacturing sector but has begun to move towards export-expansion after a drastic drop in the prices of primary commodities, especially that of oil, which dealt a heavy blow on its economy.

From the very beginning of its independence till the present, Indonesia has relied heavily on primary products to earn the necessary foreign exchange. It started with agricultural commodity exports and expanded to include extractive commodities such as energy fuels, minerals and timber. In 1986, agriculture, livestock and fishery, petroleum, petroleum products and natural gas, and other primary commodities such as rubber, tin, oil palm, timber and log contributed more than 90% of Indonesia's exports. The foreign exchange earnings from these primary products were then used to sustain the import-substitution industrialisation strategy pursued (Mangkusuwanda, Simandjuntak and Surono, 1988:39-49).

The various changes in the economic environment facing Indonesia, however, necessitated a new direction in its economic

strategy. The import-substitution industrialisation which it has relied for many years was no longer sustainable in the 1980s as many industries in this category faced a stagnating domestic market. On the other hand, the development of import-substituting industries in the areas of producer goods is economically less viable because the domestic market is too small in terms of the scale needed for efficient production.

Furthermore, the country was confronted by serious unemployment problems, tight foreign exchange and savings constraints when prices of primary commodities in general, and that of oil and natural gas in particular, plunged to a very low level resulting in a rapid decline in exports and export earnings. It had no choice but to change its course and pursue an export-led development. Therefore, Indonesia's economic development in the years to come is dependent on manufactured exports which also call for changes in its trade policy. A series of trade liberalisation measures were implemented since 1984, and it also began to expand its trade with the eastern bloc countries (Mangkusuwanda, Simandjuntak and Surono, 1988:53).

Indonesia is a newcomer as an exporter of manufactured products. As noted earlier, the combined share of chemical products, machinery and transport equipment, and miscellaneous articles in total exports was as low as 4% in 1982. Within the category of manufactured products, only a few items are of export significance, namely; fertiliser, plywood, textiles and clothing. As a whole, Indonesia's manufactured exports are few in number and small in terms of value (op.cit., 53-4).

As noted, with the exception of Singapore, the other four ASEAN countries are still heavily dependent on the export of primary commodities even after embarking upon industrialisation: 89% for Indonesia; 73% for Malaysia; 65% for Thailand and 49% for Philippines in 1985. (See Table 4.3) There are a number of commodities that the five ASEAN countries together dominate: about 80% of the world's rubber; 65% of the tin supply; 56% of coconut; 51% of palm oil. Other commodities of which ASEAN is an important supplier are rice and timber (Saw and Sirisena, 1977:10).

Another important feature in the external economic relations of ASEAN is its heavy dependence on the industrialised market economies, particularly those of Japan and the US. Table 4.4A shows ASEAN's trade with the industrialised countries and Table 4.4B shows the high percentage share of the Japan and American markets in the total trade turnover of the individual ASEAN countries. This can be explained in part because of the heavy concentration of primary products in ASEAN's exports, which are absorbed by the industrial economies.

Furthermore as the ASEAN countries set upon the path of industrialisation, they relied on the continuous inflow of capital, technology and modern equipment from the West and Japan. The dependence on Japanese investments for instance can be seen from Table 4.5. Also the ASEAN economies have come to depend increasingly on these advanced countries as markets for their low-cost, labour-intensive industrial exports. This results in a high-degree of dependency on the part of ASEAN (Wong, 1979:18-9).

To avoid being overly dependent on the developed countries, the ASEAN countries attempted to diversify their economic relations after freeing themselves from the repercussions of the economic crises that originated in the West during the late 1970s and early 1980s. They took steps to eliminate the influence of ideological factors as an obstacle for forging greater economic ties with other nations. Apart from a big effort to develop economic cooperation with countries in southern and western Asia, they also set themselves to improving economic relations with socialist countries (Cheng and Zhang, 1987:31).

The region is still very much dependent upon foreign trade for economic growth and is likely to remain so in the foreseeable future. The pattern of ASEAN dependence on industrial market economies has changed in many respects; from a main exporter of primary resources to the provision of cheap labour and functioning as cheap production bases for companies from the advanced industrialised countries. Nevertheless, the growth prospects of ASEAN countries are still very much dependent on the economic performance of the industrial market countries (Ng, Hirono & Akrasanee, 1987:45).

4.4: CHINA-ASEAN ECONOMIC RELATIONS

China's bilateral economic relations with the ASEAN countries, especially in the 1960s and 1970s were very much affected by the political climate and the strategic situation in

the Southeast Asian region. Not surprisingly, China's past economic relations with individual ASEAN countries at the peak of the cold war were characterised by numerous political twists and turns.

Prior to 1978, the economic relations between China and ASEAN centred primarily on trade alone. Other areas of economic interactions had not been developed. China's two-way trade with ASEAN before the open door policy constituted an average of 5.81% of China's total trade during the period from 1971-74. On the other hand, China's share of ASEAN's overall trade in the same period was 1.89%. (See Tables 4.6 and 4.7 respectively)

Trade between China and the various ASEAN countries had begun even in the absence of formal diplomatic relations, the most notable was the uninterrupted trade relations between Singapore and China. Although Singapore until this day has not established official relations with China, the two countries has been engaged in trade since the 1950s.

There were certain outstanding features in Sino-ASEAN trade. Firstly, in terms of trade pattern, China had been a major exporter of rice, foodstuffs and low-cost consumer goods (ranging from various kinds of household wares, tools, to low-priced garments and textiles) in return for Chinese import of certain raw material such as rubber, sugar and copper. Food commodities played a fairly modest role in ASEAN-China trade.

For individual ASEAN countries, Singapore and Malaysia were major importers of food from China, while China was the major

food market for Thailand and the Philippines. Indonesia, Malaysia and Singapore imported more in value of foods from China, ^{then} they exported to China, resulting in trade deficits in foods during 1975-82. However, Thailand and the Philippines (except in 1975) enjoyed a surplus in foods with China during the corresponding period (Akraanee and Charnsupharindr, 1987:45).

Secondly China had for many years enjoyed a trade surplus with all the ASEAN countries as shown in Table 4.8). China took up only 0.8% of ASEAN's exports for the period of 1971-1974. By comparison, China appeared to be more important as a supplier of various goods to the region, her average share of exports being 2.9% for the same period (Wong, 1977:150). ASEAN has been an important source of surplus for China. The surplus derived from trading with the developing countries (ASEAN included) was used to cover the deficits incurred for the imports of capital equipment and technology from the Soviet Union (in the 50s) and later the industrialised advanced countries.

The Sino-ASEAN relationship since 1978 has been quite dynamic with both competitive and complementary interactions. From 1978-88, China was one of the world's fastest growing economies, growing at an average of 8-9% per year. The rapid development of the Chinese economy and its shift from a strategy of economic self-sufficiency implied a rapidly growing Chinese demand for primary products, manufactures and services. This had created both positive and negative feedbacks on the ASEAN economies.

As the Chinese economy grew, its market expanded. Both imports and exports increased significantly in absolute terms. This created favourable opportunities for ASEAN as China began to import more raw material from ASEAN to meet her industrialisation needs. At the same time, China also emerged as a keen competitor of ASEAN, especially in the area of labour-intensive manufactures. The proper evaluation of the impact of China's modernisation on ASEAN has to be made in the perspective of individual ASEAN countries because the distribution of costs and benefits were quite uneven. For instance, the increase in Chinese demand for natural rubber benefitted Malaysia but not Philippines. On the other hand, an influx of labour-intensive Chinese manufactures into the world market hurt Philippines and Thailand more but not Singapore which has started to phase out labour-intensive industries, and moved into higher-value added and more capital intensive industries (Wong, 1984:9-29).

However, some generalisations can still be made. As China opened up its economy in 1978, the trading pattern of China began to undergo some changes. It intensified its economic ties with the advanced capitalist economies more than with the 3rd World countries. The import of technology was to be the cutting edge of the development programme. Thus China turned towards Japan and the West for technology, capital equipment and industrial supplies (Tai, 1987:1).

In many ways, as China opened up its economy, its trade pattern for the past ten years shared some similarities with those of ASEAN. First, foreign trade began to play a pivotal role

in the Chinese economic planning process and served increasingly, in the same way as it has served the ASEAN economies, as an important vehicle for the transmission of foreign technology and an engine of growth. Secondly, there was this heavy dependence on the industrially advanced countries of the West and Japan. China exported about 40% of its products to the industrialised countries. China then imported wheat, machinery and equipment and technology from the West and Japan. China's import policy has always been closely geared to meet the developmental needs of the country. Its import is dominated by capital goods and industrial supplies which China either could not produce, or could only produce in quantities short of domestic demands (Wong, 1980:35).

Sino-ASEAN trade, however, remained relatively stable, and the trade pattern remained pretty much the same. There was still a heavy concentration of primary products. Natural rubber, palm oil, timber, copper and coconut oil still formed the bulk of China's imports from the ASEAN countries. On the other hand, ASEAN imported large quantities of crude petroleum and basic foodstuffs from China.

The trade balance was still largely in China's favour. The trade surplus from its trading with the ASEAN countries and other countries such as HongKong and Macao was used to cover the deficits incurred from its trading with the industrialised countries. The continuing trade surplus with the ASEAN countries has been an area of contention with some ASEAN countries, especially those facing problems on their balance of payment. As China sought to increase her exports to meet her trade deficits

with the advanced economies, friction with some ASEAN countries was inevitable.

The volume and the absolute value of trade between China and ASEAN have increased significantly over the last decade. However, China's percentage share in ASEAN's overall trade turnover did not increase. As indicated in Table 4.7, China's average percentage share from 1971-74 was 1.89%, and for the period from 1981-84 this dropped to an average of 1.79%. as shown in Table 4.10. Similarly, ASEAN's share in China's total trade volume also showed a slight decrease, from an average of 5.81% (1971-74) to an average of 4.88% in the years from 1983-87 as indicated in Tables 4.6 and 4.9. This in a way highlighted the basic structural weakness in China's trade relations with the ASEAN countries, namely, it was based on a few primary products. The limited absorptive capacity of the Chinese economy for the raw materials meant a limit to any further expansion of the Sino-ASEAN trade.

As China and ASEAN both continue to progress in their development, their active search for export markets in the last few years brought them into the competition zones. Competition between China and ASEAN, for instance, arose in the area of labour-intensive manufactured products. China's exports, especially labour-intensive products were more competitive in terms of diversity and price. Although the export of primary commodities has been and still is the mainspring of the economic growth of ASEAN, increasingly, with industrialisation, the growth of the manufacturing sector is now an important determinant of

the overall economic well-being of the ASEAN countries. In recent years, ASEAN's industrialisation process has become more export-oriented, with manufactured goods constituting an increasing proportion of the ASEAN's total trade. Table 4.11 shows the relatively high percentage contribution of the manufacturing sector towards the GDP of the various ASEAN countries.

As latecomers in the industrialisation scene, both China and the ASEAN countries (except Singapore) specialised in the simple, labour intensive manufactures for exports and hence compete with each other in the slowly expanding or, in some cases, contracting export market. During the mid-1980s, most of the industrial economies, except Japan, were plagued with problems of economic recession and high unemployment. These resulted in slow import growth and rising protectionism. Thus the markets of the advanced countries during this time was viewed almost as a "zero-sum game" in which expansion of Chinese exports was viewed by some ASEAN countries as having been achieved at the expense of its own exports (Wong, 1984:24-28).

Besides competition in the markets of the advanced economies, the flooding of low-price Chinese manufactures in the home markets of ASEAN also posed serious direct competition to the many local industries in the region, some of which were still quite fragile having just emerged from the import substitution phase industrialisation. In short, China's exports drives exerted strong competitive pressures on the labour-intensive industries of ASEAN. The vision of China as a potential market of a billion consumers readily gave way to the spectre of China as a

competitive producer of several hundred million workers.

Other than foreign trade, another area to be examined is foreign investment. In contrast to the Maoist era, China since 1978 has been actively seeking foreign investments. Special Economic Zones, and various coastal cities have been opened up for the purpose of attracting foreign investments. Both China and ASEAN countries were all out to attract foreign investments. ASEAN in particular, after three years of severe recession (1984-86) have made aggressive drives to woo foreign funds (Chan, 1989:58).

China with its huge cheap labour resources and prospective massive internal market has emerged as a favourite investment target of multi-national corporation (MNCs), especially the Japanese companies. (The Tian An Men incident in June 1984, however, has seriously dampened this interest and as the leaders in China continued their political juggling, the MNCs are holding back any further investments.)

As mentioned in the earlier part of the chapter, foreign investments played an important role in the growth of the ASEAN economies. Japanese investments in this region were particularly significant. The main attraction for Japanese companies in ASEAN today was the low wages to cut manufacturing cost. The ASEAN countries functioned as safer and cheaper production sites for export to the US, Europe and Japan itself. To retain a competitive edge in attracting these investments, there was

pressure for the ASEAN countries to keep their wages low. Alternatively, they could switch to higher-value added and more capital intensive industries as Singapore has done. However, countries like Indonesia and Philippines which have not been able to build up their technological base would have to continue to rely on labour-intensive manufacturing sectors to boost its economy and provide employment for the people.

There was no evidence to show that investments from the advanced industrialised nations, particularly Japan and US, in ASEAN have declined since 1978 and that they have started putting their money in China. However, the simple logic of having to share the pie with an additional competitor meant probable smaller pieces for each party unless the pie is getting bigger and bigger each day. More importantly, the competition for foreign investments, especially in the labour-intensive industries, would mean pressure for countries like Indonesia, Philippines, and to a lesser extent, Malaysia and Thailand to keep the wages low so as to maintain their competitive edge. This in turn has its impact on the socioeconomic development of the countries. As wages were depressed, the general working population remained poor, and the standard of living stagnated. Poverty breeds discontent which would affect the social and political fabric of the country concerned.

In addition to the competition for foreign investments, China has also entered the scene of financial loans and credits and international aid. It joined the International Monetary Fund and the World Bank in 1980, and was finally admitted to the Asia

Development Bank in 1989. Since it began accepting United Nations' assistance in 1978, China was granted more than US\$1 billion in aid and loans from United Nations agencies in a space of six years (from 1978-83) (Asia Research Bulletin, 31/10/84). Besides loans from international agencies, China also solicit loans and aid from foreign governments such as Japan. This again put China in direct competition with the other ASEAN countries. However, ultimately, the decision as to how much aid and loans a country should receive would depend on the donor countries and the latter's calculation of their own interests involved.

In summary, as China proceeds with its modernisation programmes, the competitive pressures that arise can take a number of forms. First, China's import penetration of the ASEAN markets will threaten the survival of domestic industries. Second, China and ASEAN products will compete more aggressively in third country markets, both the developed market economies and the LDCs. Third, China and ASEAN countries will compete to attract foreign investments from Japan, US, EC and the NICs to engage in manufacturing for the domestic and export markets and also compete for economic assistance (Chia, 1987:124). However, in reality, the economic competition arising from China's economic modernisation for the past ten years had not been as intense as feared by ASEAN. Politico-strategic factors as discussed in Chapter Three has made China more sensitive towards ASEAN's requirements in both the political and economic arenas.

Sino-Indonesian Economic Relations

Direct trade existed between China and Indonesia before 1967. Indonesia was then the only ASEAN country to extend diplomatic recognition of China after it was proclaimed a People's Republic in October 1949.

Under Sukarno, relations between the two countries improved significantly. As Indonesia was Beijing's only non-communist friend in Southeast Asia and represented its only success in breaking out from the encirclement and isolation imposed on China by the US, China valued its relations with Indonesia a lot. It therefore sought to sustain the close relationship by boosting it with trade and aid. China's share in Indonesia's total trade rose steadily reaching record level of 11% in 1965. China became Indonesia's second largest supplier of goods. China also extended a substantial amount of economic aid to Jakarta (Wong, 1987:3-4).

However, the close alliance between China and Indonesia was brought to an end by the Gestapu affair in 1965. Beijing was accused of being involved in the abortive coup together with the Communist Party of Indonesia (PKI). Indonesia under the military generals carried out a bloody purge of PKI and all suspected communists. Formal Sino-Indonesian relations was suspended in 1967. Direct trade between the two countries was also banned. Since then trade was carried out through a third party, mainly Hongkong.

Following the Sino-American rapprochement in 1972, Indonesia's Foreign Minister, Adam Malik also declared that

Indonesia would welcome the restoration of relations with China. However, a few factors stood in the path of restoration of bilateral relations. Indonesia's staunch anti-communist stance (the Indonesian government has continued to play up the threat of communism - even though the PKI is almost totally annihilated after the Gestapu affair - to justify its tight rein over the country); the deep-seated mistrust of China after the Gestapu incident; the military's fear of China as a long term strategic threat to Indonesia's security and that China would thwart Indonesia's ambitions of playing the "big brother" role in Southeast Asia all worked towards the delay of the normalisation of relations. Even after the Vietnamese invasion of Kampuchea in 1978, when a convergence of interest between China and ASEAN was created, bringing China and ASEAN generally closer together, Indonesia remained as the most distant ASEAN member from China.

Of all the ASEAN countries, Indonesia was the slowest in responding to China's open door policy partly because of the above reasons. It had, for example, failed to take hold of the opportunity to export more rubber to a modernising China, thus losing out to Malaysia in this respect. It was not until 1985 when the Memorandum of Understanding (MOU) on establishing direct trade was signed did trade between China and Indonesia really take off. A look at Table 4.12 reflects the increasing trade between China and Indonesia.

Clearly economic crisis at home has been a major stimulus to Indonesia in its search for more trade outlets and to expand non-oil commodity exports. Firstly, the raising of barriers to the

penetration of Indonesia's traditional markets in Japan, the US and Europe, and secondly, the dramatic fall in 1985 in the price of oil, Indonesia's main source of state revenues. These brought serious economic woes to Indonesia. Although Indonesia has encouraged export diversification, up till 1985, Indonesia's exports were still crucially dependent on primary commodities, especially petroleum, petroleum products and natural gas. Also Indonesia has noticed the forwardness of its ASEAN partners - Singapore, Thailand and even Malaysia - in reaching out to China to take advantage of that country's open door policy. Thus the Indonesian decision to resume direct trade in 1985 was taken only after a great deal of soul-searching (Gunn, 1987:21).

But several competitive elements exist in the two economies. For instance, according to the Indonesian Minister of Energy and Mines, Subroto, Indonesia began to experience competition from China on the international oil market in the mid-1980s. China's export of petroleum and petroleum products in the 1950s and 1960s was negligible. But since mid-1970s, and most notably in the early 1980s, petroleum and petroleum products have become an important component of China's exports as reflected in Table 4.13. China's daily oil production was increasing even when the world oil prices were continuing to drop. Furthermore, since China was not an OPEC member, it did not have to conform to any quota set by OPEC. Hence China was exporting 400,000 barrels daily against Indonesia's 320,000 to 350,000. China's inroads into the Japan's market has caused some concern amongst the Indonesians. Japan, a major oil importer of Indonesia was

pressing Indonesia to sell at a lower price and beginning to buy more oil from China (Straits Times, 7/5/85 as cited in Justus van der Kroef, 1986:925). Table 4.14 shows that in 1974 Japan imported 15.6% of its total oil requirements from Indonesia, and 2.91% from China. However, by 1986, Indonesia's share has dropped to 11.49% and China's share increased to 6.07%.

The growth of China's petroleum exports had, however, shown signs of slowing down towards the late 1980s because of China's own increasing energy needs, and as offshore oil exploration failed to produce any significant new finds.

There were also demurrances from some Indonesian business circles that China would draw away foreign capital (in the form of investments, loans or aids, but most notably, investments from the advanced nations, particularly Japan) from Indonesia. It was felt that China with its low labour costs may be able to outsell Indonesia (Asiaweek, 14/6/85). Though there is no evidence to show that China had siphoned off investments otherwise meant for Indonesia, the presence of China as a competitor had put additional pressure for Indonesia to keep her wages down, and to improve her various infrastructural facilities in order to remain attractive to foreign investors.

China is a potential market for such goods as foodstuffs, raw materials, chemicals and derivatives. With regard to foodstuffs, Indonesia has difficulty meeting the potential needs of China because of lack of suitable export products in this category. But products such as fertiliser, cement and plywood

have found their way into the Chinese market (Kuntjoro and Elnathan, 1987:133).

Indonesia has only switched to an export-oriented industrialisation in recent years. For both Indonesia and China, which are countries with large population, abundant unskilled labour, and low income, the emphasis has been, and will be on the export of labour-intensive manufactured products which utilise elementary and intermediate technology. These included products such as textiles, clothing, footwear, toys and sporting goods (Sadhi, 10/7/85). Presently, Indonesia's most important manufactured exports are plywood, clothing, textiles and fertilisers. Plywood, produced from its vast natural forest reserves, and fertilisers are exports with potential in China's markets. Competition is, however, intense in the clothing and textile exports which are currently facing a saturated, if not contracting, world market.

Sino-Malaysian Economic Relations

Malaysia was the first ASEAN country to begin thawing its cold relationship with China, a process started soon after Tun Razak put forth in 1970 the concept of establishing Southeast Asia as a zone of peace, freedom and neutrality (ZOPFAN). He also openly acknowledged the role of China in ensuring the security of the region.

The despatch of a Malaysian Trade Mission led by Tengku

Razaleigh Hamzah, Chairman of the Malaysian Trading National Corporation in May 1971, marked the beginning of formal contact between the two countries and paved the way for the establishment of diplomatic relations. As a result of the visit, China agreed to buy the entire substantial rubber stock of the Rubber Fund Board, and in addition, the purchase of 150,000 tons of rubber a year at market price. In return, the Malaysian Trade Mission invited its Chinese host, the China Committee of Promotion of International Trade (CCPIT) to send a delegation to Malaysia, which it did on August 1971. During this visit, the CCPIT agreed to purchase 40,000 tons of rubber, 5,000 tons of palm oil and 50,000 cubic metres of timber as well as other commodities. These gestures by China indicated its eagerness to improve political ties with Malaysia (Jain, 1984:xliv).

Though direct trade was established in 1971, and since then several exchanges were made, diplomatic ties was not formalised until 1974, the year of Malaysia's general elections (the first election after the May 13, 1969 bloody racial riots). By 1974, Malaysia had become China's second major trading partner in Southeast Asia. It imported \$44.7 million worth of Chinese goods. Its exports to China, however, amounted to only \$17.4 million. Kuala Lumpur was anxious to rectify this adverse balance of trade. Thus the Malaysian Minister of Agriculture during his visit to China in 1975, expressed the hope that China would buy more products from Malaysia in order to rectify the imbalance. China agreed to import more rubber from Malaysia and to promote cooperation between the Chinese Ocean Shipping Corporation and

the proposed Malaysian Freight Booking Centre of the Malaysian Rubber Exchange and Licensing Board (Jain, 1984:xlvi).

After normalisation of relations, although trade between the two countries did increase, Malaysia's overall relationship with China did not really take off because of China's continued ties with the Communist Party of Malaya (CPM). The first decade of Sino-Malaysian relations after normalisation was dominated by political issues. Malaysia with a big Chinese minority population of more than 30%, and its experience of violent armed challenges from the CPM in the 1950s and 1960s, was particularly suspicious of China. Although, Malaysia is endowed with favourable factors conducive to growth - such as a rich natural resource base, low population pressure and so forth, this rests on a shaky base of a plural society with deep racial and cultural divisions, compounded further by differences in the socioeconomic status along racial lines. The economic development programmes of the government are thus very much influenced by this political reality of a complex multiracial society (Wong, 1979:62).

The discriminatory policies against the minorities adopted by the Malaysian government, especially in its developmental policies which were aimed at redistributing the wealth along a specific racial line, sometimes went against the need for efficiency and pragmatism in its economic policies. In view of the discrimination, especially against the Chinese in their society, Malaysia was worried that this issue would be exploited by China for its own political gain. The fact that the CPM was dominated by ethnic Chinese complicated the problem and added to

Malaysia's deep apprehensions of China. This coloured the bilateral relations between these two countries to a great extent.

The advent of a world-wide recession in the 1980s and the open door policy adopted by China were some reasons behind the more pragmatic drives by Malaysia to improve its economic relations with China. Another important reason was that the membership of the CPM has dwindled and by the 1980s, it could no longer pose a serious threat to Malaysia's security. Instead, in the face of economic woes, racial and religious tensions have mounted. These economic woes if not rectified would soon lead to greater political dissent and threatened political stability. And in fact we did witness a heightening of racial tensions during the period from 1984-1986. Hence the pragmatic drives to improve the economic situation.

Sino-Malaysian trade remained as the most important aspect of bilateral economic relations. The commodities exchanged between the two countries remained primarily agricultural, native and special products, and light industrial and textile products. These products accounted for a sizeable proportion of the bilateral trade. For instance, in 1984, the value of Chinese exports of grain, edible oil and foodstuffs, native and animal products, light industrial and textile products and handicraft articles amounted to two-thirds of the total value of China's exports to Malaysia. As for Malaysia's exports to China, they consisted mainly of rubber, palm oil, timber and cocoa products. The value of rubber, timber and palm oil purchased by China in

1984 amounted to three-quarters of the total value of Chinese imports from Malaysia. However, China and Malaysia also began to trade in certain heavy industrial products such as iron and steel products, telecommunications equipment, and mechanical products, but these remained limited in variety and volume (Fu, 1987:157).

Although Malaysia has been able to increase her exports of rubber, palm oil and timber to China (the needs created by China's rapidly expanding economy and industrialisation) in absolute volume and value, China's share in the overall Malaysian trade has in fact showed a steady decline. (See Table 4.15) Trade with China represented 3.45% of Malaysian trade in 1974, falling to 1.46% in 1984.

Malaysia has also gained some headway into the Chinese manufacturing market. For instance, a joint venture between Malaysian Intraco Resources Trading Limited and China Resources (Holdings) Company Limited was set up in November 1985. A month later, the first Malaysian manufacturing venture, Dreamland Tianjin was set up. This is a joint venture between Dreamland Spring Co (Malaysia) and a Chinese firm to produce spring mattresses in Tianjin and Shanghai. By the end of 1986, there were Malaysian investments in several projects including hotels, restaurants, offshore petroleum prospecting, wood processing, and joint ventures to produce industrial goods (Leong, 1987:1123).

Sino-Philippines Economic Relations

The Philippines and China have a long history of trade.

However, with the formation of Communist China, trade relations between the two countries were disrupted by ideological and politico-strategic factors. Trade between Philippines and China broke off in the 1950s because of Philippines close alignment with the US. After the detente in 1972, direct trade was revived when President Marcos signed an Executive Order which approved trading with socialist countries.

Philippines looked to China for the supply of crude petroleum and petroleum products. Other minor imports include fruit and nuts, zinc, electrical machinery and apparatus. China imports sugar, coconut oil, calcium carbide, logs and timber and copper from the Philippines (Lee, 1982:62-3).

Trade between the two countries took a favourable turn with the establishment of official diplomatic relations in June 1975. This also marked the drawing up of a Trade Agreement, which now forms the backbone of bilateral economic and trade relations. The Agreement, among others, provided for the following :

- most favoured nation treatment on the basis of full reciprocity with respect to custom duties and other taxes and duties applicable to bilateral trade exchanges.
- bilateral exports on the conclusion of long-term contracts relating to imports and exports between trade organisations and enterprises of both countries;
- settlement through friendly consultations of any disputes relating to the commercial transactions of the two countries.
- consultations to discuss measures aimed at broader economic and trade relations between the two countries and solutions of problems connected with the implementation of the Agreement.

Both countries also agreed to establish, in 1976, the Philippines-China Joint Trade Committee which was given the task

of examining the implementation of the Trade Agreement (Estanislao, 1987:167).

In 1979, a long-term trade agreement covering the period from 1979-85 was signed in Beijing, providing for US\$2 billion worth of import and export commodities to be exchanged. The Chinese side agreed to export 8,400,000 metric tons of crude oil and certain qualities of refined petroleum products. China also agreed to give preference to supply the Philippines with additional quantities of crude oil and refined petroleum products. In exchange, the Philippines would export to China one million metric tons of raw sugar, 400,000 to 700,000 tons of copper concentrates and 200,000 to 300,000 metric tons of coconut oil (Liao, 1988:181).

Although trade between the two countries has shown steady increase after 1975 as shown in Table 4.16, it remained small relative to totals; the Philippines exports barely a little over 1% of her total exports to China and imports only close to 2% of total imports from China. Likewise, China's total trade with the Philippines for the period 1971-84 accounted for, on the average only 0.6% of her total trade with the world. The trade has always been in China's favour too (Estanislao, 1987:168).

The variety of products traded between China and Philippines was also limited; China's exports to Philippines were dominated by crude oil and petroleum products, while its imports from Philippines comprised mainly sugar, coconut and copper. The limited base of the trade between the two countries hamper

further expansion of the bilateral economic relations (op.cit., 176-8).

Another reason why Philippines had not taken full advantage of China's modernisation policy to explore more economic opportunities was because Philippines was enmeshed in its own internal problems, especially after the assassination of Benigno Aquino in 1983. Internal politics in Philippines in the 1980s was characterised by chaos and violence and a growing communist threat because of the increasing widespread poverty, increasing gaps between the rich and poor, rampant corruption in the system and military abuses. Even after people's power brought about the downfall of Marcos, Philippines under Corazon Aquino was still plagued by political instability caused by several military coup d'etats.

Sino-Singapore Economic Relations

Singapore became a self-governing state in 1959. As both Singapore and China were then engaged in economic recovery and development, their economic relations were confined to trade alone. Through joint efforts over the past twenty five years, bilateral trade has grown rapidly. With the exception of a few years, total trade value rose sharply, especially during the 1980-85 period as reflected by the figures in Table 4.17 (Gu, 1987:188).

Singapore in view of its geographical size and small

population has since its independence embarked upon a growth strategy based on export-orientation. Because of its heavy reliance on trade and foreign investments, its government has adopted a pragmatic policy of separating politics from trade as much as possible. Thus, Singapore engages in trade with any country that is willing to trade on mutually beneficial terms regardless of ideology. That was one reason why it has maintained continuous trade with China even in the absence of formal diplomatic ties. Singapore has thus been the mainstay of China's overall trade with the ASEAN region and their relationship is firmly based. When direct trade was disrupted between China and Thailand, Philippines and Indonesia, most of the indirect trade went through Singapore.

Singapore with its early headstart in industrialisation is now one of the Newly Industrialising Countries (NICs). Its economy is largely complementary with a modernising China who has just set on a path of export-oriented growth. The complementarity of the two economies was the main reason behind the expanding bilateral economic relations for the past ten years. In addition, it has been able to exploit the opportunities offered by a more outward-looking China for the past decade by virtue of its pragmatic economic outlook and its own relative success in industrialisation. China with its substantial natural resources was able to export primary products as well as labour-intensive light manufactures. Singapore lacks natural resources and has a limited home market. It has to rely on the resources of other countries and the international market for its economic

development. Thus China's light manufactures and raw materials, especially mineral fuels, sold at competitive prices, were readily demanded in Singapore, both for home consumption and re-export.

On the other hand, in comparison with China and other ASEAN countries, Singapore has advantage in the training of manpower. It has combined this comparative advantage with Western capital and technology to foster industrialisation, diversify products and upgrade the value of products, putting emphasis on high-technology products. With rising wages in Singapore, labour-intensive industries were no longer competitive in the market. China is, however, still producing mainly labour-intensive products. The two countries are therefore in different stages of industrial development and have different production structures. Consequently, manufactures traded between them were complementary in nature (Gu, 1987:193).

The modernisation programme of China and the recent high wage policy of Singapore facilitated trade and investment between the two countries. Singapore is today the largest ASEAN investor in the PRC. With rising wages, some of the Singapore businessmen shifted their production base to China making use of its cheap labour under the compensatory trade agreement (Das, 1988:187). According to official Chinese sources, from 1979 to 1985, Singapore and Chinese enterprises together made investments in twenty projects; contracts have been signed for another 150 projects in which Singapore businessmen have promised to invest about S\$900 million.

The investments, mostly joint ventures covered twelve provinces and municipalities. These projects ranged from harbour construction, warehouses, hotels, urban housing construction and management, ship-repairing services to logistic services for oil exploration (Gu, 1987:189-192).

The services sector was another area of the PRC market which Singapore focused on. Efforts have been directed to develop the export of professional services like construction services (architecture design, planning and project management), accountancy services, port and airport management, technology transfer, transport, telecommunications services and factory-upgrading consultancy services. Singapore's success in the services market in the PRC include, for instance, a US\$170 million contract to construct a 12 berth harbour in Shenzhen; a US\$140 million World Trade Centre contract in Beijing; a consultancy contract for the development of Tianjin port and many others.

One approach being adopted by Singapore was the system approach, whereby the objective was to provide a package comprising planning design, construction, sourcing, installation, management and training tailored to the PRC's needs (Das, 1988:189).

Thus not only trade has increased between Singapore and China. Sino-Singapore cooperation in capital investment, finance and other areas has been developing and expanding, and only showed signs of slowing down after the Tian An Men incident in

June 1989. Singapore's informal and traditional links, strategic location as well as its sophisticated physical and financial infrastructure gave it the added advantage of serving an important role in China trade (Das, 1988:186). Singapore now occupies quite an important place in China's economic relations, and ranks among China's top ten trading partners.

Sino-Thailand Economic Relations

Trade is the most important aspect of economic relations between China and Thailand. Thailand's trade with China has grown at a rather impressive rate both in absolute and relative terms since the establishment of formal diplomatic ties with China in July 1975. (See Table 4.18) The launching of China's modernisation in 1978 added further impetus to the growth in trade. According to the Foreign Trade Statistics revealed by the Thai Department of Statistics, China has become one of Thailand's top ten trading partners (Wong, 1984:175).

Also because of her strategic importance to China in the ensuing Indochina conflict, Thailand had been able to enjoy certain trade concessions from China. This was reflected, for instance, in the sales of China's petroleum and petroleum products to Thailand at "friendship prices". In March 1979, the Thai government negotiated a five-year Agreement with China under which China would increase the supply of Shengli crude oil from 600,000 tons to 800,000 tons for 1979, 800,000 to 1,000,000 tons for 1980 and one million tons each for 1981, 1982 and 1983.

(Business Times 3/3/80). The agreement was left vague so that both sides could meet regularly to adjust price changes. In the 1980 sales contract, China sold 700,000 tons of Shengli crude and 250,000 tons of high-speed diesel. The price of the Shengli crude was fixed in accordance with the world market price first and then given a special discount of 2% (Asian Wall Street Journal, 11/1/80). Another example was the Chinese increased purchase of Thai rice when Thailand faced the problem of a rice glut, although China itself is a major rice exporter and there was absolutely no economic reason for it to do so.

Among China's exports to Thailand, petroleum and petroleum products were the most important items, and made up about half of China's total exports to Thailand. Besides petroleum and petroleum products, other principal Chinese commodities exported to Thailand were bean cakes, traditional Chinese medicinal herbs, paper, porcelain, silk, paraffin wax, chemical materials, pharmaceuticals and machinery. Agricultural products formed the bulk of Thailand's exports to China, such as rice, corn, granulated sugar, mung beans and rubber, which made up about 80% of Thailand's exports to China. Other agricultural products include glutinous rice, tobacco and cashew nuts. After 1979, Thailand also exported steel tubes, precious stones, machinery, polyethylene from high pressure process, tyres, glass, veneer boards and other industrial products to China (Pang, 1987:212-6).

The effects of this new phase of relations between China and Thailand since 1978 were seen not only in the rapid growth of trade but also in the development of other forms of economic

cooperation. First of all, cooperation has expanded with the establishment of joint ventures. Thai entrepreneurs began to invest in China in 1981. By the end of 1985 Thai entrepreneurs had set up thirty one joint ventures in China with a total investment of US\$200 million. These joint ventures covered a range of sectors including the motorcycle, glass and carpet industries.

China has also established twenty joint ventures, cooperative and wholly owned Chinese enterprises in Thailand in such areas as construction, coal prospecting and mining, timber processing, pharmacy and machinery industries. Scientific and technological cooperation has also made headway. Training programmes for technicians and managerial staff have already been set up. Up till 1987 China and Thailand have cooperated in more than 100 projects relating to domestic animals, fruit, medical research, the improvement of water and soil, marsh gas and mineral prospecting (Liao, 1988:180-181).

Other Thailand investments in China were in productive projects, including factories producing fodder, drinks, motorcycles, synthetic fibres, plastics, glass, paints, concrete bricks, soya sauce, and so on, as well as chicken farms and some service projects such as hotels, shipping companies and golf courses (op.cit., 219).

Both China and Thailand are developing nations and economic development in the two countries is more or less at the same level. In its foreign economic exchanges, Thailand imports

machinery and equipment, technology and raw materials (not available domestically) from the developed industrial nations to satisfy the needs of economic development. At the same time, it exports to developed industrial economies agricultural produce and other primary products and labour-intensive light manufactures to earn foreign exchange. China's pattern of foreign exchange is similar to that of Thailand, as it imports machinery, technology and raw materials from developed industrial nations and then exports to them agricultural, sideline and native products and some light manufactures (Liao, 1988:223-4).

A similar situation is found in bilateral investment too. Both China and Thailand invite foreign investment for the purpose of making use of foreign funds, introducing advanced technology and equipment, and creating employment (Pang, 1987:224-5).

These similarities in their trade and investment structures had created competitive pressures, but because of strong political motivations, Sino-Thai economic relations remained sound and both parties had tried to accommodate each other in economic issues as much as they could when both of them continued to require each other's support over the Kampuchean issue.

In summary, the economic impact of China's modernisation during the past ten years on the ASEAN countries is varied. Singapore and to a certain extent Malaysia benefitted more than countries like Indonesia and Philippines. Singapore with her higher level of economic and technological development was better

able to complement the needs of China's modernisation. Malaysia, by virtue of the fact that she possessed raw materials, notably rubber and palm oil which China does not produce but required in considerable amount for its modernisation, was able to increase its exports to China and close the trade gap between them. Thailand has also benefitted from the economic modernisation because of political reasons. However, in general, the economic impact of China for the past ten years from 1978 to 1988 has not been extensive because of China's relatively unimportant role in ASEAN's economies. China's average share in the total trade of ASEAN, for example, was less than 2%. The economic well-being of the ASEAN countries remains essentially dependent on the US and Japan.

Table 4.1: Growth of Foreign Investments over time

	Projects	Investments (in US\$ M)
1979-82	19	10
1983-84	74	47
1985	not available	140
1986	178	168

Source : James Petras "Contradictions of Market Socialism in China" in Journal of Contemporary Asia, Vol.18, No.2, 1988, p238

TABLE 4.2A

China's Foreign Trade, 1950-84

Year	Total Trade		Exports		Imports	
	Value (US\$ mill.)	Growth Rate (%)	Value (US\$ mill.)	Growth Rate (%)	Value (US\$ mill.)	Growth Rate (%)
1950	1135		552		583	
1951	1955	72.2	757	37.1	1198	105.5
1952	1941	-0.7	823	8.7	1118	-6.7
1953	2368	22.0	1022	24.2	1346	20.4
1954	2433	2.7	1146	12.1	1287	-4.4
1955	3145	29.3	1412	23.2	1733	34.7
1956	3208	2.0	1645	16.5	1563	-9.8
1957	3103	-3.3	1597	-2.9	1506	-3.6
1958	3871	24.8	1981	24.0	1890	25.5
1959	4381	13.2	2261	14.1	2120	12.2
1960	3809	-13.1	1856	-17.9	1953	-7.9
1961	2936	-22.9	1491	-19.7	1445	-26.0
1962	2663	-9.3	1490	-0.1	1173	-18.8
1963	2915	9.5	1619	10.7	1266	7.9
1964	3463	18.8	1916	16.2	1547	22.2
1965	4245	22.6	2228	16.3	2017	30.4
1966	4614	8.7	2366	6.2	2248	11.5
1967	4155	-9.9	2135	-9.8	2020	-10.1
1968	4048	-2.6	2103	-1.5	1945	-3.7
1969	4029	-0.5	2204	4.8	1825	-6.2
1970	4586	13.8	2260	2.5	2326	27.5
1971	4841	5.6	2636	16.6	2205	-5.2
1972	6301	30.2	3443	30.6	2858	29.6
1973	10976	74.2	5819	69.0	5157	80.4
1974	14568	32.7	6949	19.4	7619	47.7
1975	14750	1.2	7264	4.5	7486	-1.7
1976	13433	-8.9	6855	-5.6	6578	-12.1
1977	14804	10.2	7590	10.7	7214	9.7
1978	20638	39.4	9745	28.4	10893	51.0
1979	29333	42.1	13658	40.2	15675	43.9
1980	37822	28.9	18272	33.8	19550	24.7
1981	40375	6.8	20893	14.3	19482	-0.3
1982	39297	-2.7	21819	4.4	17478	-10.3
1983	40727	3.6	22197	1.7	18530	6.0
1984	53630	31.6	25960	16.9	27670	49.3

SOURCES: 1950-83, from Ministry of Foreign Economic Relations and Trade, China, *Almanac of China's Foreign Economic Relations and Trade, 1984* (Hong Kong, 1984). 1984, from ESCAP, *Guidebook on Trading with the People's Republic of China* (New York, 1985), p. 56.

Table 4.2B: Percentage of China's Trade in the World Market

	World's Total (in US\$100 M)	China's Share (in US\$100 M)	%age of World's total vol. of trade
Imports	20497.8	195.5	0.95
1980 Exports	19905.7	182.7	0.92
Total	40403.5	378.2	0.94
Imports	18786.9	213.9	1.14
1983 Exports	18078.4	222.3	1.23
Total	36865.3	436.2	1.18
Imports	19876.2	274.1	1.38
1984 Exports	19019.9	261.4	1.37
Total	38896.1	535.5	1.38
Imports	20269.5	422.5	2.08
1985 Exports	19274.6	273.5	1.42
Total	39544.1	696.0	1.76
Imports	22158.4	429.1	1.94
1986 Exports	21154.2	309.4	1.46
Total	43312.6	738.5	1.71

Source : Calculated based on statistics from the Yearbook of International Trade Statistics, United Nations, (New York: United Nations Publishing Services, (various years)

TABLE 4.3

Trade Pattern of ASEAN
(As a percentage of total exports)

	Primary Commodities					Manufactured Exports				
	1970	1981	1983	1984	1985	1970	1981	1983	1984	1985
ASEAN	87.9	71.1	65.7	63.6	63.0	9.6	22.2	34.3	36.4	37.0
Indonesia	98.6	96.8	92.2	90.7	89.0	1.2	2.9	7.8	9.3	11.0
Malaysia	92.8	80.0	74.1	73.4	73.0	6.3	19.5	25.9	26.6	27.0
Philippines	89.5	55.4	50.0	45.7	49.0	6.4	22.8	50.0	54.3	51.0
Singapore	69.0	51.5	44.2	42.6	41.0	28.0	41.1	55.8	57.4	59.0
Thailand	89.5	71.6	67.8	65.4	65.0	5.2	24.8	32.2	34.6	35.0

SOURCE: United Nations, *Commodity Trade Statistics, 1970-1984*; *World Development Report 1987*.

Table 4.4A: ASEAN's Trade with the Industrialised Countries (in US \$million)

Exports	Grand Total	I.C Total	Industrialised Countries (I.C)							
			I	USA	I	Japan	I	EEC	I	
1971	6594.7	3847.9	58.4	1169.6	17.7	1570.2	23.9	817.3	13.4	
1972	7857.5	4686.2	59.6	1411.2	17.9	1918.0	24.4	1235.4	15.7	
1973	13214.0	8210.9	62.1	2258.2	17.1	3628.5	27.5	2097.7	15.9	
1974	22604.2	13983.5	61.9	3919.7	17.3	6877.9	30.5	2633.5	11.7	
1975	20953.4	12743.3	60.8	4219.3	20.1	5496.2	26.2	2794.7	13.3	
1983	68209.1	40925.4	60.0	13710.0	20.1	15006.0	22.0	9003.6	13.2	

Imports

1971	7979.2	4495.5	62.6	1144.8	13.3	2083.2	26.1	1547.0	19.4
1972	9442.3	5806.8	61.5	1448.5	15.3	2501.1	26.1	1624.5	17.2
1973	14197.7	8546.1	60.2	2272.8	16.0	3575.1	25.1	2345.5	16.5
1974	22813.5	13110.9	57.5	3366.1	14.5	5516.9	24.2	3687.8	16.2
1975	23236.5	13859.0	59.6	3653.8	15.7	5892.7	25.4	3721.5	15.9
1983	76123.0	43964.6	57.4	12332.0	16.2	16899.3	22.2	9667.6	12.7

Sources : Computed from data from IMF and IBRD, Dept of Statistics, Malaysia and Dept of Statistics, Singapore cited in John Wong, "ASEAN Economies in Perspective", pp 144-145

Table 4.4B: Percentage of trade with Japan and USA of individual ASEAN countries

	Indonesia		Malaysia		Philippines		Singapore		Thailand	
	1981	1986	1981	1986	1981	1986	1981	1986	1981	1986
% trade with Japan	41	44.6	23.4	20	20	17.4	15.1	14.6	16.3	20.3
% trade with US	17	20.6	12.6	17	25	30.1	12.9	18.9	11.9	16.1

Source : FEER Asia Yearbooks, 1982 & 1987

Table 4.5A : Japanese Direct Investments by Industry in ASEAN

	ASEAN	World	ASEAN's % share
1. Agriculture & Fisheries	163	558	29.2
2. Mining	2397	6311	45.1
3. Manufacturing Industries	1614	7139	22.6
4. Commerce & Others	374	7856	4.7
5. Real Estate & Branch Offices	34	1347	2.5

Source : MITI, 1978

Table 4.5B : Japanese Direct Investments by Country and Region, 1951-81 (cumulative)

Cumulative Total 1951-81	Amount US\$ M	Percentage share of Japan's total investments
ASEAN	9855	21.6
Indonesia	6838	15.1
Malaysia	681	1.5
Philippines	687	1.5
Singapore	1202	2.6
Thailand	427	0.9
Other parts of Asia	3312	7.4
Grand Total	45403	100.0

Source : MITI, 1982

N.B The above tables are cited in Johan Saravanamuttu "Japanese Economic Penetration in ASEAN in the context of the International Division of Labour" in Journal of Contemporary Asia, Vol 18 No 2, 1988, pp 140 - 141

Table 4.6: China's Two-way trade with ASEAN before 1978
(in US \$ million)

	China's Total Trade	China's trade with ASEAN	As a %age of China's total trade
1971	4681	291.6	6.23
1972	5716	314.1	5.50
1973	9870	588.1	6.00
1974	13705	757.0	5.52
1971-74 Percentage Average			5.81

Source: John Wong, *"The Political Economy of China's Changing Relations with Southeast Asia"* (London: MacMillan Press, 1984)
p 148

Table 4.7: ASEAN's Trade with China before 1978 (in US \$million)

	Asean's Exports	Asean's Imports	Grand Total (1)	Exports to China	Imports from China	Total (2)	$\frac{2}{1} \times 100\%$
1971	6594.7	7979.2	14573.9	33.4 (0.5)	226.6 (2.8)	260.0	1.78
1972	7857.5	9442.3	17299.8	50.2 (0.6)	251.7 (2.7)	301.9	1.75
1973	13214.0	14197.7	27411.7	140.5 (1.1)	456.8 (3.2)	597.3	2.18
1974	22604.2	22813.5	45421.7	171.4 (0.8)	669.6 (2.9)	841.0	1.85
1971-74 Percentage Average				(0.8)	(2.9)		1.89

Sources : Compiled from data from IMF and IBRD, Dept of Statistics, Malaysia and Dept of Statistics, Singapore cited in John Wong, "ASEAN Economies in Perspective", pp 144-145

Table 4.8: China's Trade with individual ASEAN Countries before 1976 (In US \$ Million)

Year	Indonesia ⁰			Malaysia			Philippines			Singapore			Thailand		
	M	X	B	M	X	B	M	X	B	M	X	B	M	X	B
70	30.6	*	+ 30.5	74.7	21.8	+ 52.9	-	-	-	125.9	22.7	+103.2	-	-	-
71	27.6	-	+ 27.6	88.9	26.2	+ 62.7	0.8	-	+ 0.8	132.9	15.2	+117.7	-	-	-
72	39.0	-	+ 39.0	69.6	27.1	+ 42.5	16.5	-	+16.5	141.5	20.4	+121.7	-	-	-
73	48.8	*	+ 48.8	150.1	83.7	+ 66.4	21.3	-	+21.3	232.2	52.0	+180.2	-	-	-
74	113.9	-	+113.9	195.3	87.1	+108.2	27.0	13.4	+13.6	264.6	51.2	+213.4	4.5	*	+4.5

Notes : M = Imports from China; X = Exports to China

B = Balance (a plus sign indicates surplus for China)

* = Statistically insignificant

⁰ = In the case of Indonesia, a relatively large amount of re-exports of China origin from HongKong, for example, in 1974, HK\$314 million (or US\$63 million) of Chinese goods were re-exported to Indonesia from Hong Kong.

Sources : IMF & IBRD: Direction of Trade, various issues, as cited in John Wong, *The Political Economy of China's Changing Relations with Southeast Asia*, 1984:188

Table 4.9: China's Trade with ASEAN Countries, (1983-87)
(in US Million Dollars)

Country	Total				Exports				Imports			
	1983	1984	1986	1987	1983	1984	1986	1987	1983	1984	1986	1987
Grand Total	23121	32288	73850	82650	11782	15608	30940	39440	11339	16680	42910	43210
Malaysia	213.5	249.0	383.0	556.6	99.1	123.3	202.7	254.4	114.4	125.7	186.3	302.2
As % of China's total trade	0.92	0.77	0.52	0.67	0.84	0.79	0.65	0.65	2.48	1.53	0.43	0.70
Philippines	100.2	200.4	293.4	385.5	76.3	147.6	156.9	245.8	23.9	52.9	136.5	139.7
As % of China's total trade	0.43	0.62	0.40	0.47	0.65	0.95	0.51	0.62	0.52	0.64	0.32	0.32
Singapore	362.7	876.6	1759.3	1945.3	302.1	779.6	1206.3	1327.5	60.6	97.0	553.0	617.9
As % of China's total trade	1.57	2.72	2.38	2.35	2.57	5.00	3.90	3.37	1.31	1.18	1.29	1.43
Thailand	175.5	270.7	445.1	709.8	103.7	158.9	158.8	305.1	71.8	111.8	286.2	404.6
As % of China's total trade	0.76	0.84	0.60	0.86	0.88	1.02	0.51	0.77	1.56	1.36	0.68	0.94
Indonesia	105.6	184.7	466.7	779.2	25.9	43.5	142.5	188.1	79.7	141.2	324.2	591.1
As % of China's total trade	0.46	0.57	0.63	0.94	0.22	0.28	0.46	0.48	1.73	1.72	0.76	1.37
ASEAN Total	957.5	1781.4	3347.5	4376.4	607.1	1252.9	1867.2	2320.9	350.4	528.6	1486.2	2055.5
As % of China's total trade	4.14	5.52	4.53	5.30	5.15	8.03	6.03	5.88	3.09	3.17	3.46	4.76

Sources: Computed from data in the "China Statistical Yearbook, 1988" and "Statistical Yearbook of China, 1985 (Beijing: State Statistical Bureau of China, 1988), p 646 & p 496 respectively.

Table 4.10: ASEAN's Two-way Trade with China, 1981-84

	Total value of ASEAN's trade	Trade with China	Percentage share
1981	140439.06	2370.041	1.69
1982	141560.11	2622.432	1.85
1983	143947.62	2227.775	1.55
1984	148378.35	3068.766	2.07
1981-84 Percentage Average			1.79

Source : Calculated from Tables 4.12, 4.14, 4.14, 4.16 & 4.17

**Table 4.11: Share of the Industrial Sector to the GDP
(Percentages) of the ASEAN countries**

	Indonesia	Malaysia	Philippines	Singapore	Thailand
1965	12 (8)	24 (10)	28 (20)	24 (15)	23 (14)
1983	39 (13)	35 (19)	36 (25)	37 (24)	27 (19)

Note : Figures in brackets denote the share of the manufacturing sector.

Source : World Bank, 1985 as cited in John Wong, 1984:151

Table 4.12: Indonesia's Total Trade and Trade with China (in US\$ Million)

	Imports	Exports	Total (1)	Imports from China	Exports to China	Total (2)	Percentage (2/1)
1972	1561.7	1777.7	2162.1	39.013 (2.50)	-	39.013	1.69
1973	2729.1	3209.7	5938.8	53.371 (1.96)	-	53.371	0.90
1974	3862.6	7420.8	11283.4	114.690 (2.97)	-	114.690	1.02
1975	4769.8	7102.5	11872.3	203.476 (4.27)	-	203.476	1.71
1976	5673.1	8546.5	14219.6	131.789 (2.32)	-	131.789	0.93
1977	6230.3	10852.6	17082.9	153.495 (2.46)	-	153.495	0.90
1978	6690.4	11643.2	18333.6	112.171 (1.68)	-	112.171	0.61
1979	7202.3	15590.1	22792.4	131.777 (1.83)	-	131.777	0.58
1980	10834.4	23950.4	34784.8	197.273 (1.82)	-	197.273	0.57
1981	13272.2	25164.4	38436.6	243.549 (1.84)	8.295 (0.03)	261.884	0.68
1982	16858.9	22328.3	39187.2	230.887 (1.37)	14.230 (0.06)	245.119	0.63
1983	16351.1	21145.9	37497.0	264.032 (1.61)	29.945 (0.14)	230.977	0.62
1984	13882.1	21897.9	35770.0	224.420 (1.62)	7.667 (0.04)	232.087	0.65
1985	10258.9	18589.5	28848.4	248.929 (2.43)	84.189 (0.45)	333.118	1.16

Source : Yearbook of International Trade Statistics, United Nations, (various years)

**Table 4.13A: China's Export of Petroleum and Petroleum products
(in percentage of total exports)**

1959	1966	1970	1974	1978	1984
negl.	negl.	negl.	8.1	12.0	21.8

* *negl.* - *negligible*

**Table 4.13B: China's Exports of Crude Petroleum and Petroleum
Products (in thousand metric tons)**

	1960	1970	1980	1984
Crude Petroleum	62.8	191.5	13,308.9	22,292.7
Petroleum Products	27.1	193.2	4,202.7	5,817.5

Sources: Ministry of Foreign Economic Relations and Trade, Almanac of China's Foreign Economic Relations & Trade, 1984 & 1985 (as cited in Guo Peixing "Trade in Industrial Raw Materials between China and the ASEAN Countries" (1987:63)).

Table 4.14: Japan's Imports of Petroleum
(in millions yen)

	1974	1986
Japan's Total Petroleum Imports (excluding petroleum products)	5,503,860	3,430,929
Imports from China	120,303 (2.19%)	207,466 (6.07%)
Imports from Indonesia	858,307 (15.6%)	394,144 (11.49%)

Sources: Nippon Statistical Yearbook, (1975 & 1987 editions).

Table 4.15: Malaysia's Total Trade and Trade with China (in US\$ Million)

	Imports	Exports	Total (1)	Imports from China	Exports to China	Total (2)	Percentage (2/1)
1972	1615.95	1693.65	3309.60	69.016 (4.27)	27.118 (1.60)	96.134	2.94
1973	2488.70	3022.52	5511.22	150.384 (6.04)	82.245 (2.72)	232.629	4.22
1974	4194.96	4273.50	8468.46	204.953 (4.89)	87.480 (2.05)	292.433	3.45
1975	3583.02	3877.02	7460.04	147.780 (4.12)	53.257 (1.37)	201.037	2.69
1976	3788.07	5242.38	9030.04	134.259 (3.54)	44.681 (0.85)	178.940	1.98
1977	4577.65	6133.19	10710.84	139.712 (3.05)	119.527 (1.95)	259.239	2.42
1978	5886.70	7350.42	13237.12	220.613 (3.75)	108.755 (1.48)	329.368	2.49
1979	7894.11	11140.69	19034.80	220.613 (2.81)	181.699 (1.63)	403.446	2.12
1980	10787.46	12958.94	23746.40	253.419 (2.35)	216.542 (1.67)	469.961	1.98
1981	11439.63	11657.04	23096.67	274.189 (2.40)	88.220 (0.76)	362.409	1.57
1982	12480.23	12086.53	24566.76	277.582 (2.22)	110.540 (0.91)	388.122	1.58
1983	13241.94	14091.62	27333.56	269.555 (2.04)	156.242 (1.11)	426.397	1.56
1984	14158.14	16618.17	30776.31	285.218 (2.01)	165.242 (0.99)	450.460	1.46

Source : Yearbook of International Trade Statistics, United Nations (various years)

Table 4.16: Philippines' Total Trade and Trade with China (in US\$ Millions)

	Imports	Exports	Total (1)	Imports from China	Exports to China	Total (2)	Percentage (2/1)
1972	1229.6	1159.5	2389.1	2.305 (0.19)	0.835 (0.07)	3.140	0.13
1973	1590.5	1797.9	3388.4	24.267 (1.53)	6.571 (0.40)	30.838	0.91
1974	3143.3	2677.0	5820.3	27.005 (0.86)	13.307 (0.50)	40.312	0.69
1975	3766.2	2294.5	6070.7	50.687 (1.35)	20.183 (0.88)	70.870	1.17
1976	3953.3	2573.7	6527.0	56.511 (1.43)	35.708 (1.39)	92.279	1.41
1977	4269.8	3150.9	7420.7	83.153 (1.95)	106.375 (3.38)	189.528	2.55
1978	4732.2	3424.9	8157.1	117.850 (2.49)	47.458 (1.39)	165.308	2.03
1979	6612.9	4601.2	11214.1	127.216 (1.92)	51.464 (1.12)	178.680	1.59
1980	7726.9	5787.8	13514.7	221.094 (2.86)	44.986 (0.78)	266.080	1.97
1981	7945.7	5722.2	13667.9	209.901 (2.64)	78.225 (1.37)	288.126	2.11
1982	8255.3	5020.6	13275.9	222.702 (2.30)	105.205 (2.10)	327.907	2.47
1983	7979.5	5005.3	12984.8	128.979 (1.62)	29.392 (0.59)	158.371	1.22
1984	6051.2	5321.6	11372.8	230.228 (3.80)	57.494 (1.08)	287.722	2.53
1985	5261.0	4543.5	9804.5	291.782 (5.55)	75.640 (1.66)	367.422	3.75
1986	5394.3	4841.8	10236.1	122.431 (2.27)	104.689 (2.16)	227.120	2.22

Source : Yearbook of International Trade Statistics, United Nations (various years)

Table 4.17: Singapore's Total Trade and Trade with China (in US\$ Millions)

	Imports	Exports	Total (1)	Imports from China	Exports to China	Total (2)	Percentage (2/1)
1972	3433.68	2213.64	5647.32	141.531 (4.12)	20.365 (0.92)	161.896	2.87
1973	5130.33	3651.87	8782.20	232.221 (4.53)	52.036 (1.42)	284.257	3.24
1974	8373.84	5804.37	14178.21	263.318 (3.14)	51.427 (0.89)	314.745	2.22
1975	8093.40	5358.36	13451.76	287.905 (3.56)	41.511 (0.77)	329.416	2.45
1976	8961.60	6506.40	15468.00	266.769 (3.21)	38.633 (0.59)	305.402	1.97
1977	10464.43	8236.90	18701.33	275.067 (2.63)	59.348 (0.72)	355.117	1.79
1978	13024.44	10113.84	23138.28	341.853 (2.62)	57.602 (0.57)	399.455	1.73
1979	17641.92	14232.40	31874.32	411.403 (2.33)	170.015 (1.19)	581.418	1.82
1980	23726.07	19482.91	43208.89	622.753 (2.62)	307.533 (1.58)	930.286	2.15
1981	27412.75	20816.77	48229.52	771.472 (2.81)	178.598 (0.86)	950.070	1.97
1982	28315.15	20902.31	49207.46	879.471 (3.11)	241.507 (1.03)	1120.978	2.28
1983	27966.88	21692.85	49659.73	826.785 (2.96)	212.783 (0.98)	1039.568	2.09
1984	28732.98	24129.80	52862.78	1353.129 (4.71)	243.851 (1.01)	1596.980	3.02
1985	26017.65	22584.60	48602.25	2260.320 (8.69)	332.409 (1.47)	2592.729	5.33
1986	25550.70	25533.56	51084.26	1428.211 (5.59)	571.113 (2.24)	1999.324	3.91

Source : Yearbook of International Trade Statistics, United Nations, (various years)

Table 4.18: Thailand's Total Trade and Trade with China in US\$ Million

	Imports	Exports	Total (1)	Imports from China	Exports to China	Total (2)	Percentage (2/1)
1974	3138.11	2462.01	5600.12	4.529 (0.14)	0.112 (negl.)	4.641	0.08
1975	3274.46	2373.46	5648.41	16.877 (0.52)	19.203 (0.01)	36.080	0.64
1976	3570.97	2979.05	6550.02	71.670 (2.01)	62.058 (2.08)	133.148	2.04
1977	4614.67	3488.70	8103.37	67.188 (1.46)	102.040 (2.92)	169.228	2.09
1978	5336.05	4070.19	9406.24	83.793 (1.57)	73.656 (1.81)	157.449	1.67
1979	7161.89	5300.77	12462.66	241.889 (3.38)	76.976 (1.45)	318.865	2.56
1980	9487.28	6526.65	16013.93	416.778 (4.39)	123.603 (1.89)	540.381	3.37
1981	9970.32	7038.05	17008.37	320.748 (3.22)	186.844 (2.65)	507.592	2.98
1982	8454.49	6868.30	15322.53	233.657 (2.76)	306.649 (4.46)	540.306	3.53
1983	10174.19	6298.34	16472.53	265.179 (2.61)	107.283 (1.70)	372.462	2.26
1984	10296.51	7359.95	17656.46	319.824 (3.11)	181.693 (2.47)	501.517	2.84
1985	9293.25	7154.51	16447.76	223.501 (2.40)	271.332 (3.79)	494.833	3.01

Source : Yearbook of International Trade Statistics, United Nations, (various years)

CHAPTER FOUR: REFERENCES

1. Bruce Reynolds "China in the International Economy" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, (New Haven & London: Yale University Press, 1984), pp 71-106
2. Guo Peixing "Trade in Industrial Raw Materials between China and ASEAN countries" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns* (Singapore: ISEAS, 1987), pp 62-88
3. Lee Sheng Yi "ASEAN Trade with China" in Saw Swee Hock & Hong Hai, ed., *Growth and Direction of ASEAN Trade* (Singapore: Applied Research Corporation, 1982)
4. Chia Siow Yue "ASEAN-China Trade in Manufactured Goods" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 89-125
5. John Wong The Political Economy Of China's Changing Relations With Southeast Asia (London: MacMillan Press, 1984)
6. Paul Chan "Policies, Mechanisms and Institutions affecting ASEAN-China Economic Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Developments in ASEAN and China* (Singapore: ISEAS, 1989), pp 52-81
7. Chng Meng Kng, Linda Low & Toh Mun Heng "Trade Policy Options for Singapore" in Mohamed Ariff & Tan Loong Hoe, ed., *The Uruguay Round: ASEAN Trade Policy Options* (Singapore: ISEAS, 1988), pp 132-168
8. John Wong ASEAN Economies In Perspective (London: MacMillan Press, 1979)
9. Kamal Salih, Mohd Hafiah Piel & M Sahathavan "Trade Policy Options for Malaysia" in Mohamed Ariff & Tan Loong Hoe, ed., *The Uruguay Round: ASEAN Trade Policy Options*, pp 65-103
10. Florian Alburo, Erlinda Medalla & Filologo Pante, Jr "Trade Policy Options for Philippines" in Mohamed Ariff & Tan Loong Hoe, ed., *The Uruguay Round: ASEAN Trade Policy Options*, pp 104-131

11. Suhadi Mangkusu-wanda, Djisman Simandjantak & Sumara Surono "Trade Policy Options for Indonesia" in Mohamed Ariff & Tan Loong Hoe, ed., *The Uruguay Round: ASEAN Trade Policy Options*, pp 38-64
12. Saw Swee Hock & N L Sirisena "Introduction" in Saw Swee Hock & Lee Soo Ann, ed., *Economic Problems and Prospects in ASEAN Countries* (Singapore: Singapore University Press, 1977)
13. Cheng Bifan & Zhang Nansheng "Institutional Factors in China-ASEAN Economic Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 21-37
14. Narongchai Akrasanee & Pichai Charnsupharidr "ASEAN-China Trade in Food" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 38-61
15. Lawrence ST Tai "An Assessment of the Foreign Trade of PRC since 1959" in *Asian Profile*, Vol.15, No. 1, February 1987
16. John Wong "Sino-ASEAN Trade Structure and Potentials" in Hong Hai & Roy Mackie, ed. *Trade with China* (Singapore: Times Book International, 1980), pp 34-51
17. John Wong "An Overview of ASEAN-China Economic Relations" in Chia Siow Yue & Cheng Bifan ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 1-20
18. Geoffrey Gunn "The Garuda and the Dragon: Indonesian-Chinese Relations" in *Asia-Pacific Review*. Issue No. 5, Summer 1987
19. Justus van der Kroef "Normalising Relations with China - Indonesia's Policies and Perceptions" in *Asian Survey*, Vol.XXIV, No.8, August 1986
20. Dorodjatun Kuntjoro Jakti & Januar Elnathan "Indonesia-China Trade Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 126-149
21. Mohamad Sadhi "Economic Change and Developments in PRC" in *Jakarta Post*, 10/7/85
22. R K Jain China and Malaysia, 1949-1983 (New Jersey: Humanities Press, 1984)

23. Fu Zhengluo "Sino-Malaysian Economic Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 150-165
24. Stephen Leong "Malaysia and the People's Republic of China in the 1980s - Political Vigilance and Economic Pragmatism" in *Asian Survey* Vol. XXVII, No. 10, October 1987
25. Jesus Estanislao "Philippines-China Trade Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns* pp 166-187
26. Liao Shaolian "Economic Relations between China and the ASEAN Countries: Past, Present and Future" in Frances Lai, ed., *The Emerging Relations between China and Southeast Asia: Limitations and Opportunities* (Hong Kong: Institute for Asian-Pacific Studies, Lingnan College, 1988), pp 179-184
27. Gu Yuanying "China-Singapore Economic Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 188-209
28. S Chandra Das "Singapore-PRC Trade Relations in the Context of ASEAN" in Frances Lai, ed., *The Emerging Relations between China and Southeast Asia: Limitations and Opportunities*, pp 185-194
29. Pang Rongqian "Economic Relations between China and Thailand" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Trends and Patterns*, pp 210-234

CHAPTER FIVE

CONCLUSION

For more than a century, the theme of modernisation has dominated the Chinese political scene. The beginning of modernisation in China in the second half of the nineteenth century created conditions which allowed political leaderships, including the Communists to further the process of modernisation.

The Chinese Communist Party's (CCP) leadership is not a monolithic entity. During its struggle for power against the Kuomintang, the CCP was able to submerge various differences in the face of a common enemy. However, after achieving power and setting itself upon the tasks of construction, the strains imposed by the modernisation process undermined the unity of the leadership. The ups and downs, twists and turns in the Chinese political scene since the CCP came to power were essentially a result of the differences in opinions on the strategies and tactics to be adopted by China in its development. Differences over the right path of modernisation interacted with personal conflicts and power struggle to manifest itself as the periodic swings in Chinese domestic politics.

The shifts in domestic politics in turn had its impact on China's foreign policy. Chinese foreign policy consists not only of the principles and practices governing its relations with other countries; in certain respects it also reflects the way the Chinese leadership governs and controls its own people. For instance, during the Cultural Revolution, China's approach to the

outside world primarily reflected domestic ideological and political priorities rather than any coherent foreign policy strategy. The obsession with ideology and the virtual deification of Mao led to extreme revolutionary militancy towards the outside world. The export of Maoism was championed by the radicals. The image that China projected was of a nation seized by irrational extremism, exhibiting an intense xenophobic isolationism and almost totally uninterested in normal relations with the outside world (Barnett, 1974:271-2).

However, as noted in earlier chapters, Chinese foreign policy is also often influenced by developments in the international arena. This is especially significant as China tends to conceptualise its foreign policy from a global perspective. It is especially sensitive to the policies pursued by the two superpowers. For example, China regards its conflict with Vietnam as a microcosm of a global struggle against Soviet expansionism (Levine, 1984:110).

There is no consensus as to which factors - international or domestic - are more important at any given time in determining the course of Chinese foreign policy. But there is no doubt that China's foreign relations cannot be fully understood without reference to its domestic affairs. In large part, of course, foreign policies reflect challenges and opportunities in the international arena. Every country must be sensitive to development beyond its border. But domestic factors such as the level of economic development, the success of economic

programmes, the emergence of new leaders and the attitudes of the leaders and the populace towards the outside world combine with international circumstances to create a nation's foreign policy (Lieberthal, 1984:43).

Beijing's foreign policy appeared to be influenced by a long-standing domestic controversy over the desirability of transforming China through extensive contacts with foreign societies. While some Chinese leaders have been willing to promote the all-round modernisation of their country through the import of foreign technology and even institutions, others have sought to preserve what they regard as the purity of Chinese cultural (communist?) values by restricting China's links abroad (Oxnam and Harding, 1986:viii-ix).

Deng's economic modernisation strategy proposed in 1978 was a package of domestic and foreign policies. Its modernisation strategy was based on the belief that modernisation would be best carried out with some form of external assistance and increased economic interactions with as many countries as possible. This had led to increased foreign trade, increased import of advanced technology, the extensive use of foreign loans and investments and establishment of a wide range of new international economic relationships. These new foreign economic policies were, of course, closely linked to a set of sweeping domestic economic reforms as discussed in Chapter Two.

While economic modernisation is the general mission of this new historical period, and there is no reason to doubt the wish

of the leadership to make changes, differences concerning its scope, corresponding changes in values, institutions and its actual implementation continue to exist. The basic theme of all Chinese modernisers from as long ago as the Self-Strengthening Movement of 1860 was revived. Can China preserve its values while adopting foreign techniques?

In the present leadership, two major factions exist. While both factions agreed on the importance of economic development, they disagreed about the degree to which foreigners should be allowed to penetrate China, and thus about the degree to which the political system should be changed to facilitate China's interaction with the international community. The conservative group accepted the importance of importing technology and expanding foreign trade, but opposed any major institutional and political changes. These people like the scholar official class of China in the late nineteenth century still believed in the superiority of the Chinese culture and institutions. The reform group not only stressed the importance of importing foreign technology, but were also more willing to modify the country's institutional structure and practices in order to achieve modernisation (Lieberthal, 1984:55-66).

As the reforms proceeded and created new problems, groups or factions adversely affected by the reform programme began to mobilise in opposition. Thus significant tensions about the best way to modernisation continued to trouble China. Questions such as how much should China reform its political system in order to

spur economic growth; how much foreign influence should be permitted in the country economically and in the social, political and ideological arenas: remained controversial. The opposition to reforms were manifested in such movements as the campaign against spiritual pollution, campaign against bourgeois liberalisation and so forth. The latest conflict between the two different factions concerned the handling of the students' protest movements sparked off by Hu Yaobang's death in April 1989.

The decision to crack down on the students' protest culminating to the Tian An Men incident on 4 June 1990 pointed to the temporary triumph of the conservative group in the leadership who were not in favour of political reforms. Although a return to extreme nativism and isolationism would be unlikely, the Chinese leadership has after the Tian An Men incident placed greater restrictions on China's contacts with the West. The pace of economic reforms has also been slowed down considerably.

However, the eagerness of the present Chinese leadership to get on to the tasks of economic modernisation by resuming normal economic relations with the West and Japan after the Tian An Men incident also pointed to the difficulties in reversing the economic reform programmes entirely. The economic reform policy has generated its own momentum. It has also created pockets of people who benefitted from the policies and thus not willing to give up without a fight. Hence, the reforms could not be easily reversed in spite of temporary setbacks.

But even then, China's capacity to modernise appeared limited. This is due not so much to the subjective wishes of the leadership but to the massive problems, both new and old that existed. Problems such as shortage of well-educated, technically competent personnel, the underdevelopment of the scientific and educational establishments, limited energy resources and so forth, continued to plague the country. Worse of all, after a decade of turmoil during the Cultural Revolution, many bureaucrats had learnt that the way to survive was to be outwardly compliant while in fact never working hard to implement any particular set of policies. What they had seen and heard and their own experience showed them that policies were likely to be reversed - with serious consequences for those who had become identified with them (Lieberthal, 1984:58). The crack down and the new restrictions after the Tian An Men incident in June 1989 only served to further reinforce this perception that the better part of valour was not to make decisions for which one might be held accountable when the political line changed. Thus the millions of middle and lower level bureaucrats through their apathy, indifference, skepticism or opposition can sabotage the best hopes and desires of the top leadership to implement any changes.

Many of the problems related to modernisation were actually manifestations of the objective character of the regime - a rigid communist regime which wanted to maintain a tight control over its population while pursuing economic modernisation. At the same time, the intense battles of the Cultural Revolution era had

introduced a self-protective factionalism that has remained strong in the ruling party, government and military bureaucracies. This factionalism meant a sustained, unified commitment to any programme was difficult to generate, as each faction bent some of its efforts towards looking for faults and vulnerabilities in whatever programme the other faction put forward. China under communism has already passed its golden age of development as revolutionary fervour waned. Aptly put by Professor S.A.M Adshead (Adshead, 1989:8), "Chinese communism can no longer provide inspiration for modernisation, yet it prevents the emergence of any other source. Communism at one time appeared to be China's answer to modernisation. Now it seems more like China's avoidance of modernisation".

In external relations, China will remain ambivalent about its ties with the outside world. The international system will continue to be regarded both as a source of valuable technology and capital and as a source of ideas and values that subvert China's established political and cultural order. As a result of this conflict, the cyclical pattern of engagement and isolation that characterised the first thirty years of the People's Republic of China is likely to continue. We may well see periods in which the restrictions on the range and scope of contacts between Chinese and foreigners are relaxed followed by periods in which the same constraints are tightened. And as in the past, this process is closely linked to an ongoing political struggle between those who seek to modernise China by liberalising its political and economic institutions and those who believe that

China will fall into disorder and instability unless firm political control is maintained (Harding, 1984:215).

While there is no doubt that differences existed in the leadership with regards to the economic modernisation programmes with significant tensions about the best way to proceed and the scope of reform, the modernisation process has still managed to bring about some significant changes to the Chinese economy in the last ten years from 1978 to 1988.

In the economic arena, decollectivisation was carried out in the rural sector. The collective system - a predominant feature of the agriculture sector for over two decades - was largely replaced by the household responsibility system.

In the industrial sector, reforms covered enterprise management, taxation, finance, pricing, employment and wages. The most significant aspect of the modernisation which has a direct bearing on China's participation in the international system and its relations with the outside world was the change in its orientation towards foreign economic relations. The so-called "Open Door Policy", a vital part of the programme for modernising the economy signalled China's willingness to participate more actively in the world market.

How has this change in China's foreign economic orientation affected China's relations with its ASEAN neighbours and what has been the impact? Will China become more nationalistic and assertive in its dealings with its ASEAN neighbours with regards to long-standing claims over the Spratly Islands in the South

China Sea and the presence of large number of overseas Chinese in ASEAN countries. What about its links with the outlawed Communist parties of the ASEAN countries?

Southeast Asia is one of the most important subregions in Asia from China's perspective. By virtue of its geographical location and historical association China has the most direct interest in the pattern of power within the Southeast Asian region. Indeed security concerns have dominated China's agenda in this area. Conversely, the ASEAN countries have reasons to be watchful of events in China and to follow closely the changes in China's internal and foreign policies. Although China's influence in the region's politics waned from time to time, depending upon the nature and degree of its involvement in external affairs, its role could not be ignored.

China's role in the Southeast Asian region are influenced by two main factors, its threat perception and perceived changes with regards to the global balance of power in general and the regional balance of power in particular, and the various internal changes (economic, political and social) taking place in China at that point of time (Yahuda, 1983:3).

It would be surprising if the dramatic changes in China after Mao's death failed to produce any repercussions in the regional scene. As it is, since the adoption of the modernisation programmes in 1978, Chinese leaders had frequently declared their interest in ensuring a stable, tranquil international environment as the best setting for its domestic economic development. The

Beijing leaders had placed priority in its foreign and security policies on securing a stable environment in Asia that would allow internal economic modernisation to proceed smoothly.

Jonathan Pollack believes that China's modernisation prospects hinged on several key considerations: diminishing direct Soviet pressure against China, thereby making defence needs less imperative; devising a credible, consistent basis for heightened economic and technological exchanges with the West; and creating a stable and peaceful environment that would be congruent with orderly economic development. Pollack also raises the possibility that the demands of domestic modernisation will lead China to try to disengage itself from the global competition between the US and the Soviet Union (Pollack, 1984:158). And indeed, for the past ten years, we did see the above principles being put into concrete policies by the Chinese government.

Even though for the past decade China had become an active participant in the international political system and had emerged as a stabilising influence in East Asia, the ASEAN countries still looked at China with ambivalence. Ambivalence towards China will always be present because China is a big country situated in ASEAN's immediate neighbourhood. China elicits feelings of suspicions because of historical circumstances and its espousal of a revolutionary ideology. Over the past decades before China's pursuit of the open door policy, Beijing had been a source of inspiration and training for local communist groups. This legacy of suspicion is difficult to overcome. For these small ASEAN

states, history, ideology, race and geography make China a Middle Kingdom that will not go away.

There is no reason to doubt Beijing's assertion that China's modernisation requires stable international and regional environments. But as noted in Chapter Three, the changing strategic environment appeared to be a more important factor in conditioning China's policy towards the ASEAN countries.

Indeed since China's rapprochement with the United States in 1972, and especially in recent years, China has viewed relations with its Asian neighbours, ASEAN included, through an anti-Soviet prism. The reunification of Vietnam in 1975 brought little joy to the Chinese as Vietnam moved closer to Soviet Union and sought to exert its influence over Indochina. In response to these developments, China accelerated the normalisation of its relations with the ASEAN states.

In return, the ASEAN governments also sought to hedge against some of the future uncertainties posed by a reunified Vietnam by improving relations with China. The overriding factor governing the Chinese outlook for the Southeast Asian region since 1975 has been the strategic concern about the increasingly formidable challenge by an embolden Hanoi supported by an eager Soviet Union. The Soviet-backed Vietnamese invasion of Kampuchea in 1978 further accentuated the Sino-Vietnam conflict and increased China's fear of Soviet Union as the latter gained a permanent foothold in the region when Vietnam allowed Soviet

forces to use the Cam Ranh Bay and Danang military bases (Thambipillai, 1988:119-120).

China had capitalised on ASEAN's fear of Vietnam's hegemonist designs in Southeast Asia by extending its approbation to the ASEAN countries, and even giving Thailand the assurance that it would come to the latter's aid should Vietnam invade Thailand.

Thus, we see that significant changes in the Asian politico-strategic environment - the American defeat in Indochina; the emergence of a powerful unified Vietnam and the intensification of Sino-Soviet rivalry in Southeast Asia - pointed Beijing in the direction of downplaying its ties with the outlawed ASEAN communist parties in favour of establishing official ties with ASEAN states. The ASEAN states were in turn more receptive to the PRC heretofore.

Though strategic reason was the main force behind the change in China's policy towards the ASEAN countries, the domestic ascendancy in China of pragmatic leaders such as Deng Xiaoping, Hu Yaobang and Zhao Ziyang - who had opened their doors to the capitalist West, American and Japanese governments and business groups - had accelerated the process whereby China distanced itself from Communist parties in Asia. China's pursuit of economic modernisation based on increasing links with the capitalist countries also greatly reduced its appeal as a revolutionary model. Whether in the realm of ideology or development, China was no longer an attractive model (Levine, 1984:135-7).

In constructing its Asian policy around the concept of anti-Sovietism, China has adopted a very different vocabulary from that employed in its confrontation with the United States in earlier decades. The revolutionary rhetoric of the earlier period was less suited to the task of dealing with the USSR, which was, after all, a Communist state that trumpeted its commitment to supporting revolutions. Instead, China has had to appear as a responsible member of the international system promoting stability and order. The realignment with the US in the 1970s and the changing regional balance of power produced a sea change in China's orientation in Asia. China became more responsive to geopolitical realities than to revolutionary aspirations and to the viewpoints of governments in power than to rebels in opposition. Thus Beijing's rhetoric of revolutionary diplomacy yielded to the language and logic of realpolitik. And in concrete policies, support for the communist insurgencies in these countries declined (Levine, 1984:124-5).

With regards to the overseas Chinese, ASEAN countries, especially Malaysia and Indonesia have treated it as an important issue concerning its relations with China. For China, the protection of the interests and rights of overseas Chinese had never really been a top priority in China's foreign policy. Again, China's policy towards the overseas Chinese must be seen in the context of its national security. Concern over the overseas Chinese was expressed only when it coincided with the higher priorities of China in matters of national security and economic development.

A study on China's policy towards the overseas Chinese done by Leo Suryadinata (Suryadinata, 1985:34-58) showed that when the policy of protecting overseas Chinese conflicted with other major goals such as national security and territorial integrity, the latter prevailed. Leo Suryadinata cited three case studies to prove this point.

The first case was that of Indonesia. In the early 1950s, Indonesia was China's only non-communist friend in Southeast Asia. It represented China's only success in breaking out of US encirclement. Eager to continue this good relationship with Indonesia which was seen as important for China in its conflict with the US then, China stopped its criticisms of Sukarno's discriminatory policy against the ethnic Chinese in Indonesia when these criticisms threatened to strain the Sino-Indonesian relations.

And again, in the 1970s, in its conflict with the Soviet Union (which has become China's number one enemy) and its ally Vietnam in the Indochina Peninsula, China's only ally was Kampuchea. China failed to do anything about the plight of the Kampuchean Chinese who were persecuted under the Pol Pot regime because the maintenance of good ties with the Pol Pot government was seen as more important for China's national security than the protection of the rights and interests of the overseas Chinese.

In contrast, in 1978, China made a big issue out of Vietnam's purge and forceful resettlement of the Vietnamese Chinese in the New Economic Zones. This could be understood when

we see it as part and parcel of China's conflict with Vietnam, which in turn was a reflection of the latter's fear of the expansion of Soviet's power into the Southeast Asian region which could then threaten China's national security.

In recent years the revival of China's interest in the Chinese abroad was linked to China's domestic economic modernisation programme. The goal of economic modernisation was the most important mission of the past decade. In this connection the need for capital, professional and entrepreneurial skills was utmost in the minds of the Chinese leadership when it called upon all overseas Chinese to contribute to the modernisation of China. The wooing of the ethnic Chinese had caused unhappiness to some ASEAN governments. However, the truth is that Beijing by no means has the whip hand on the overseas Chinese in Southeast Asia. The internal consolidation of the ASEAN states, the Southeast Asianisation process of the Chinese in these countries and the unattractiveness of China's ideology and development model all worked against the possibility of the ethnic Chinese in ASEAN being manipulated by China for its own gain.

The resurgence of China's interest in the Spratly islands also appeared to be related to China's economic modernisation. The search for more oil sources was a strong motivation for China to take concrete actions to stake its claims over the Spratlies. Military modernisation for the past ten years provided China with the means to stake its claims before it's too late. China's fledgling blue-water Southern Fleet had been sent to the vicinity

of the Spratly islands on a more regular basis since the mid-1980s.

In maintaining a higher profile in the South China Sea, the Chinese had also taken pains not to alarm the ASEAN countries and reassured them that China would seek a peaceful settlement on any conflicting claims between them. This continued reassurance was given probably because ASEAN's support on the Kampuchean issue was still perceived as important to China in its conflict with the Soviet-Vietnamese clique. In the few clashes with Vietnam in the vicinity of the Spratly islands, China had tried to portray Vietnam as the "provoker" of these clashes.

However, even with China's reassurances, the ASEAN countries remained fearful that the conflicting claims over the Spratlies would lead to the heightening of tensions in the South China Sea and threaten ASEAN's security and the immediate interests of some of the ASEAN countries.

While the impact of China's economic modernisation on ASEAN's security is indirect, one would expect a more direct link between China's economic modernisation and its economic relations with the ASEAN countries. Indeed Sino-ASEAN economic relations in general and China's economic ties with the individual ASEAN countries had shown a marked improvement. The absolute volume and value of trade between China and the ASEAN countries had increased tremendously for the past ten years. And the economic ties had also expanded to include other areas such as mutual

investments and the exchange of scientific and technological knowledge.

However, in real value, China's trade with and investments in the ASEAN countries remained relatively small and hence the impact was insignificant. Political factors also had an influence on the extension of ASEAN's economic ties with China too. Unresolved political issues such as the issue over the ethnic Chinese had affected the further development of economic relations between China and some ASEAN countries. The deep suspicions against China because of history and race and the internal politics of the country concerned had impeded moves by countries such as Indonesia to seek closer ties, whether political or economic.

But a more important reason behind the less than positive economic impact of China's modernisation on the ASEAN countries, except Singapore, was that both were developing economies heavily dependent on the advanced capitalist countries. They competed in the markets of these countries and they competed for investments and loans from these economies. The ASEAN countries have not weaned themselves away from the over-reliance on the advanced capitalist economies.

Similarly, except for Singapore, the rest of the ASEAN countries were not major trading partners of China or big investors in China. Their contribution towards China's economic modernisation was also quite minimal.

In summary, we see that both international strategic factor (especially the changing balance of power in Southeast Asia) and domestic factor (emphasis on economic modernisation) has affected China's policy towards ASEAN countries. It is difficult for us to determine the real extent of the impact of China's modernisation on ASEAN because at the time when China launched its modernisation programmes, the strategic situation in Southeast Asia was also undergoing significant changes such as the emergence of a strong Vietnam that is friendly with the Soviet Union.

Vietnam's invasion of Kampuchea and its design to set up an Indochina Federation also raised the fear, amongst ASEAN states, especially Thailand, of Vietnam. The common desire to check further expansionist designs by Vietnam was an objective shared by both China and ASEAN. The convergence of interest on this issue was an important factor that brought China and ASEAN closer than they would normally do. In its bid to win ASEAN over to its side, China was more responsive to issues that were sensitive to ASEAN countries. Also to contrast itself favourably against Vietnam, and to portray Vietnam as a greater threat to ASEAN's security, China acted like a benign, responsible power in this region, checking Vietnam's hegemonism and supporting ASEAN in its stance on the Kampuchean issue.

Thus, on closer examination, it appeared that Chinese foreign policy towards the ASEAN countries is basically reactive to a perceived threat from external sources. China has been

preoccupied with the superpowers and with the smaller countries in Asia being used by the superpowers against China. Chinese policy towards ASEAN has been mainly a function of Chinese policy towards the superpowers. For instance, in the 1950s and 1960s, when China's arch foe was US, it was also hostile to countries like Thailand and Philippines who followed US policy of containing China, and also the other ASEAN countries who were friendly towards US. Then in the 1970s, following China's detente with the US, Soviet Union became China's number one enemy. China began to pursue better relations with the ASEAN countries, friends of the US, and who also have reasons to be wary of USSR. Though domestic factors also had some impact on policy choices, it seemed that external factors were more crucial and important determinants of Chinese foreign policy towards the ASEAN states (Chang, 1988:220). The economic modernisation policy, however, served as an additional incentive for China to improve its relations with the ASEAN countries, and the Sino-ASEAN economic relations that developed might help to pave the way for better relations.

Generally speaking, China's policies in Southeast Asia for the past decade from 1978 to 1988 were consistent with the post-Mao domestic policies of establishing a stable political environment and promoting economic development along pragmatic lines. After all, a stable political environment would also enhance China's national security. Policies to facilitate China's participation in the international economy and to convey the image of a responsible power were pursued. For the ASEAN

countries, a China that did not feel threatened and insecure and fully preoccupied with the tasks of orderly domestic economic development, had contributed to the region's stability to a certain degree.

CHAPTER FIVE: REFERENCES

1. A Doak Barnett Uncertain Passage: China's Transition To The Post-Mao Era (Washington DC: Brookings Institution, 1974)
2. Steven Levine "China in Asia: The PRC as a Regional Power" in Harrying Harding, ed., *China's Foreign Relations in the 1980s*, (London & New Haven: Yale University Press, 1984), pp 107-145
3. Kenneth Lieberthal "Domestic Politics and Foreign Policy" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, pp 43-70
4. Robert Oxnam & Harry Harding "Forward" in Harry Harding, ed., *China's Foreign Relations in the 1980s*
5. Harry Harding "China's Changing Role in the Contemporary World" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, pp 177-223
6. Michael Yahuda Towards The End of Isolationism: China's Foreign Policy After Mao (New York: St Martin's Press, 1983)
7. Jonathan Pollack "China and the Global Strategic Balance" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, pp 146-176
8. Pushpa Thambipillai "China and the ASEAN Member-states: Adversary or Partner" in Frances Lai, ed., *The Emerging Relations Between China And Southeast Asia: Limitations And Opportunities* (HongKong: Centre for Asian Pacific Studies, Lingnan College, 1988), pp 115-122
9. Leo Suryadinata China And The ASEAN States: The Ethnic Chinese Dimension (Singapore: Singapore University Press, 1985)
10. Chang Paomin "Commentary on Robert Sutter's paper on <Implications of China's Modernisation for East and Southeast Asian Security>" in David Lampton & Catherine Keyser, ed. *China's Global Presence: Economics, Politics and Security*, (Washington DC: American Enterprise Institute for Public Policy Research, 1988)

BIBLIOGRAPHY

A. BOOKS

- Barnett, A Doak China's Economy In Global Perspective
(Washington DC: Brookings Institution, 1981)
- Uncertain Passage: China's Transition To The Post-Mao Era (Washington DC: Brookings Institution, 1974)
- Baum, Richard (ed) China's Four Modernisation: The New Technological Revolution (Boulder, Colorado: Westview Press, 1980)
- Baum, Richard & Louise B Bennett (ed) China In Ferment: Perspectives On The Cultural Revolution (New Jersey: Prentice Hall, 1971)
- Blecher, Marc China: Politics, Economics and Society (Boulder, Colorado: Rienner Publishers, 1986)
- Broinowski, Alison (ed) Understanding ASEAN (London: MacMillan Press, 1982)
- Brugger, Bill China: Radicalism To Revisionism, 1962-1979 (New Jersey: Barnes & Noble Books, 1981)
- Bunge, Frederica & Rinn-Sup Shinn (ed) China: A Country Study (Washington DC: American University Press, 1981)
- Buszynski, Leszek ASEAN: Security Issues of the 1990s, The Strategic and Defence Studies Centre Working Paper No. 165, (Canberra: Australian National University Press, 1988)
- Camilleri, Joseph Chinese Foreign Policy: The Maoist Era And Its Aftermath (Seattle: University of Washington Press, 1980)
- Chang, Parris H Power And Policy In China (London: Pennsylvania State University Press, 1975)
- Chawla, Sudershan, Melvin Gurtor & Alain-Gerard Marsot (ed) SEA Under The New Balance Of Power (New York: Praeger, 1974)

- Cheng, Chu Yuan China's Economic Development: Growth And Structural Change (Boulder, Colorado: Westview Press, 1982)
- Chesneaux, Jean
(Translated from French by Paul Aster and Lydia Davis) China: The People's Republic, 1949-1976 (USA: Random House, 1979)
- Chia, Siow-Yue & Cheng Bifan (ed) ASEAN-China Economic Relations: Trends And Patterns (Singapore: Institute of Southeast Asian Studies, 1987)
- ASEAN-China Economic Relations: Developments in ASEAN and China (Singapore, Institute of Southeast Asian Studies, 1989)
- Chossudovsky, Michel Towards Capitalist Restoration ? Chinese Socialism After Mao (Hong Kong : MacMillan Press, 1986)
- Chou, Eric Mao Tse Tung: The Man And The Myth (New York: Stein & Day, 1980)
- Chow, Gregory The Chinese Economy 2nd Edition (Singapore: World Scientific Publishing Co, 1987)
- Collier, John & Elsie China's Socialist Revolution (Great Britain, 1973)
- Copper, John F China's Foreign Aid (London: D.C. Heath & Co, 1976)
- Domes, Jurgen
(translated from French by Rudger Machetzki) The Internal Politics Of China, 1949-1972 (London: C.Hurst & Company, 1973)
- Dutt, Gargi & V.P Dutt China's Cultural Revolution (London: Asia Publishing House, 1970)
- Eckstein, Alexander China's Economic Revolution (Cambridge: Cambridge University Press, 1977)
- Feuchtwang, Stephen & Athar Hussain (ed) The Chinese Economic Reforms (New York: St. Martin's Press, 1983)
- FitzGerald, C.P China And Southeast Asia Since 1945 (London: Longman, 1973)
- Changing Directions of Chinese Foreign Policy (Canberra: The Australian Institute of International Affairs, 1971)

- FitzGerald, Stephen China And The Overseas Chinese: A Study of Peking's Changing Policy, 1949-70 (Cambridge: Cambridge University Press, 1972)
- China And The World (Canberra: Australian National University, 1977)
- Gardner, John Chinese Politics And The Succession To Mao (London: MacMillan Press, 1982)
- Garside, Roger Coming Alive: China After Mao (London: Andre Deutsch, 1981)
- Ginsburg, Norton & Bernard A Lahor (ed) China: The 80s Era (Boulder & London: Westview Press, 1984)
- Gray, Jack & Gordon White (ed) China's New Development Strategy (London: Academic Press, 1982)
- Griffin, Keith (ed) Institutional Reform And Economic Development In The Chinese Countryside (New York: M.E. Sharpe, 1984)
- Gurtor, Melvin China And Southeast Asia-The Politics Of Survival: A Study Of Foreign Policy Interaction (Massachusetts: Heath Lexington, 1981)
- Harding, Harry (ed) China's Foreign Relations In The 1980s (New Haven & London: Yale University Press, 1984)
- Harris, Lilian C China's Foreign Policy Toward The Third World, Washington Papers No. 112, (Washington D.C: Georgetown University Press, 1985)
- Harris, Peter Political China Observed: A Western Perspective (London: Croom Helm, 1980)
- Heidhues, Mary F Somers Southeast Asia's Chinese Minorities (Australia: Longman, 1974)
- Hinton, Harold (ed) The People's Republic Of China: A Handbook (Colorado: Westview Press, 1979)
- Howard, Roger Mao Tse-tung And the Chinese People (London: George Allen & Unwin Ltd, 1977)
- Hsu, Immanuel CY The Rise Of Modern China 2nd Edition, (Hong Kong: Oxford University Press, 1975)

- China Without Mao: The Search For A New Order (New York: Oxford University Press, 1983)
- Huxley, Tim ASEAN And Indochina: A Study Of Political Responses, 1975-81 (Canberra: Australian National University, 1985)
- Indochina And Insurgency In The ASEAN States, 1975-81 Strategic and Defence Studies Centre, Working Paper No. 67 (Canberra: Australian National University, 1983)
- Jain, R.K. China And Malaysia, 1949-1983 (New Jersey: Humanities Press, 1984)
- Jao, YC & Leung CK (ed) China's Special Economic Zones: Policies, Problems And Prospects (HongKong: Oxford University Press, 1986)
- Johnson, Chamlers (ed) Ideology And Politics In Contemporary China (Seattle: University of Washington Press, 1973)
- Karnow, Stanley Mao And China: Inside China's Cultural Revolution (New York: Penguin, 1972)
- Khaw, Guat Hoon An Analysis Of China's Attitude Towards ASEAN, ISEAS Occasional Paper No. 48, (Singapore: Institute of Southeast Asian Studies, 1977)
- Kraus, Willy Economic Development And Social Development In The PRC (New York: Springer Verlag, 1982)
- Lai, Frances FW (ed) The Emerging Relations Between China And Southeast Asia: Limitations And Opportunities (Hong Kong: Centre for Asian Pacific Studies, Lingnan College, 1988)
- Lee, Ngok The Chinese People's Liberation Army, 1980-82: Modernisation, Strategy And Politics (Canberra: Strategic and Defence Studies Centre, Australian National University Press, 1983)
- Leys, Simon The Chairman's New Clothes: Mao And The Cultural Revolution (London & New York: Allison & Bushy, 1981)
- Lin, Wei & Arnold Chao (ed) China's Economic Reforms (Philadelphia: University of Pennsylvania Press, 1982)

- Liu, Hsung Shing China After Mao: Seek Truth From Facts
(Hong Kong: Penguin, 1983)
- Ma, Hong New Strategy For China's Economy
(Beijing: New World Press, 1983)
- Martin, Linda G (ed) The ASEAN Success Story: Social, Economic
And Political Dimensions (Honolulu:
University of Hawaii Press, 1987)
- Meisner, Maurice Mao's China: A History Of The People's
Republic (New York: Free Press, 1977)
- Moise, Edwin Modern China: A History (London &
New York: Longman, 1986)
- Mohamed Ariff &
Tan Loong How (ed) The Uruguay Round: ASEAN Trade Policy
Options (Singapore: Institute of South
-east Asian Studies, 1988)
- Moody, Peter R (Jr) Chinese Politics After Mao: Development
And Liberalisation, 1976-1983 (New York:
Praeger, 1983)
- Morrison, Charles (ed) Threats To Security In East Asia-Pacific
(Massachusetts: DC Heath & Co, 1983)
- Palmer, Ronald D &
Thomas J Reckford Building ASEAN: Twenty Years Of
Southeast Asian Cooperation, Washington
Papers No. 127, (Washington D.C: Praeger,
1987)
- Prybyla, Jan S The Political Economy Of Communist China
(Pennsylvania: International Textbook Co,
1970)
- Purcell, Victor The Chinese In Southeast Asia (London:
Oxford University Press, 1965)
- Pye, Lucian W China: An Introduction (Boston: Little
Brown & Co, 1978)
- The Dynamics Of Chinese Politics
(Cambridge, Massachusetts: Oelgeschlager
Gunn & Hain, 1981)
- Riskin, Carl China's Political Economy: The Quest For
Development Since 1949 (New York: Oxford
University Press, 1987)
- Saich, Tony China: Politics And Government (London:
MacMillan Press, 1981)
- Saw, Swee Hock &
Lee Soo Ann (ed) Economic Problems And Prospects In ASEAN
Countries (Singapore: Singapore
University Press, 1977)

- Scalapino, Robert (ed) The Communist Revolution In Asia: Tactics, Goals And Achievements 2nd Edition (New Jersey: Prentice Hall, 1969)
- Scalapino, Robert & Jusuf Wanandi (ed) Economic, Political And Security Issues In Southeast Asia In The 1980s (Berkeley: Institute of East Asian Studies, 1982)
- Schram, Stuart (ed) The Political Thought Of Mao Tse-tung (New York: Praeger, 1970)
- Schurman, Franz Ideology And Organisation In Communist China (Berkeley: University of California Press, 1968)
- Selden, Mark & Victor Lippit (ed) The Transition To Socialism In China (London: Croom Helm, 1982)
- Stavis, Benedict China's Political Reforms: An Interim Report (New York: Praeger, 1988)
- Suryadinata, Leo China And The ASEAN States: The Ethnic Chinese Dimension (Singapore: Singapore University Press, 1985)
- Sutter, Robert Chinese Foreign Policy: Developments After Mao (New York: Praeger, 1986)
- Tai, Sung An Mao Tse Tung's Cultural Revolution (USA: Pegasus, 1972)
- Taylor, Jay China And Southeast Asia: Peking's Relations With Revolutionary Movements (New York: Praeger, 1974)
- Tilman, Robert O Southeast Asia And The Enemy Beyond: ASEAN Perceptions Of External Threats (Boulder: Westview Press, 1987)
- Townsend, James Politics In China (Boston: Little Brown & Co, 1974)
- Tung, Rosalie L Chinese Industrial Society After Mao (Toronto: DC Heath & Co, 1982)
- US Congress, Joint Economic Committee People's Republic Of China: An Economic Assessment, A Compendium of Papers submitted to the Joint Economic Committee, 18 May 1972, (Washington DC: Government Publishing House)
- China: A Reassessment of the Economy 10 July 1975
- Chinese Economy Post-Mao, 9 Nov 1978

-
- China under the Four Modernisations: Part 1, Selected Papers submitted to the Joint Economic Committee, 13 Aug 1982
- Wang, Gungwu The Chinese Minority In SEA, Southeast Asia Research Paper Series 1, (Singapore: Singapore University Press, 1978)
-
- China And The World Since 1949: The Impact Of Independence, Modernity And Revolution (London: Macmillan Press, 1977)
- Wang, James Contemporary Chinese Politics: An Introduction (New York: Prentice Hall, 1980)
- Wawn, Brian The Economies Of The ASEAN Countries (Hong Kong: MacMillan Press, 1982)
- West, Philip & Frans AM The Pacific Rim And The Western World: Strategic, Economic And Cultural Perspectives (Boulder: Westview Press, 1987)
- Alting van Geusen (ed)
- Wilson, Dick The Neutralisation Of Southeast Asia (New York: Praeger, 1975)
- Wong, John ASEAN Economies In Perspective (London: MacMillan Press, 1979)
-
- The Political Economy Of China's Changing Relations With Southeast Asia (London: MacMillan Press, 1984)
- Yahuda, Michael Towards The End Of Isolationism: China's Foreign Policy After Mao (New York: St. Martin's Press, 1983)
- Young, Wahn Kihl & Lawrence Grinter (ed) Asian-Pacific Security: Emerging Challenges And Responses (Boulder, Colorado: Lynne Rienner Publishers, 1986)

B. JOURNALS AND PERIODICALS

Adelphi Papers

Asia-Pacific Review

Asian Affairs

Asian Profile

Asian Recorder

Asian Survey

Australian Journal of Chinese Affairs

BBC Summary of World Broadcasts

Beijing Review (BR)

China Business Review

China Daily

China Quarterly

China Report

Far Eastern Economic Review (FEER)

Journal of Contemporary Asia

Journal of Northeast Asian Studies

Pacific Affairs

Problems of Communism

B. ARTICLES

- Adshead, S.A.M "Mao to Modernity: China joins the World Order" in *Pacific Review*, Vol. 2, No. 1 1989
- Bachman, David "Differing visions of China's Post-Mao Economy : The ideas of Chen Yun, Deng Xiaoping and Zhao Ziyang" in *Asian Survey* Vol. XXVI, No. 3, March 1986
- Bi, Yaodong "Recent developments in China's Policy-making establishments" in *Asian Affairs*, Vol. 15, No. 3, Fall 1988
- Brehm, Carolyn "Flex Trade" in *China Business Review*, Issue 10, No. 5, September-October 1983
- Burns, John "Reforming China's Bureaucracy, 1979-1982" in *Asian Survey*, Vol. XXIII, No. 6, June 1983
- Buszynski, Leszek "Thailand : The Erosion of a Balanced Foreign Policy" in *Asian Survey*, Vol. XXII No. 11, November 1982
- Cao, Guanlin "Construction Contracting and Labour Cooperation Abroad" in *Beijing Review*, No. 52, 26 December 1983
- Chan, Paul "Policies, Mechanisms, and Institutions Affecting ASEAN-China Economic Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Developments in ASEAN and China* (Singapore: ISEAS, 1989), pp 52-81
- Chang, C Y "Overseas Chinese in China's Policy" in *China Quarterly*, No. 82, June 1980
- Chang, Paomin "Commentary on Robert Sutter's paper on <Implications of China's Modernisation for East and Southeast Asian Security>" in David Lampton & Catherine Keyser, ed, *China's Global Presence: Economics, Politics and Security* (Washington D.C: American Enterprise Institute for Public Policy Research, 1988)
- Chang, Parish H "Chinese Politics: Deng's Turbulent Quest" in *Problems of Communism*, January-February 1981

- Charance, Bernard "The new development strategy in China" in *China Report*, Vol. 24, No. 2, April-June 1988
- Chen, Thomas M.H "China's Price Reform in the period of Economic Reforms" in *Australian Journal of Chinese Affairs*, Issue No. 18, July 1987
- Cheng, Elizabeth "Credit Squeeze puts brakes on Joint Ventures" in *FEER*, 2/3/89
- Chihren Lin, Cyril "The Reinstatement of Economics in China Today" in *The China Quarterly*, No. 85, March 1981
- Clarke, Christopher "Decentralisation" in *China Business Review*, Issue 11, No. 2, March-April 1984
- Delfs, Robert "The Perils of Progress" in *FEER*, 2/3/89
- "Avoiding the Key Issues" in *FEER*, 6/4/89
- "Politics on Hold" in *FEER*, 20/4/89
- "Purging the Future" in *FEER*, 6/7/89
- "NPC toes the Party Line-Chop of Approval" in *FEER*, 13/7/89
- "Report details allegations against Zhao's Capitalist Crimes" in *FEER*, 20/7/89
- Dernberger, Robert "Prospects for the Chinese Economy" in *Problems of Communism*, September-December 1979
- "China's New Economic Development: Problems and Prospects" in Norton Ginsburg & Bernard A. Lalor, ed., *China: The 80s Era* (Boulder & London: Westview Press, 1984) pp 99-144
- Dittmer, Lowell "China in 1980: Modernisation and its Discontents" in *Asian Survey*, Vol. XXI, No. 1, January 1981
- "China in 1988: The Continuing Dilemma of Socialist Reform" in *Asian Survey*, Vol. XXIX, No. 1, January 1989

- Donnithorne, Audrey "The Chinese Economy Today" in *Journal of North-east Asian Studies*, Vol. II, No. 3, September 1983
- Garrett, Banning & Bonnie S Glaser "Chinese Assessments of Global Trends and the Emerging Era in International Relations" in *Asian Survey*, Vol. XXIX, No. 4, April 1989
- Grant, Bruce "The Security of Southeast Asia" in *Adelphi Papers No. 142*, Spring 1978
- Gunn, Geoffrey "The Garuda and the Dragon : Indonesian-Chinese Relations" in *Asia-Pacific Review*, Issue No. 5, Summer 1987
- Gurtov, Melvin "The Foreign Ministry and Foreign Affairs during the Cultural Revolution" in *China Quarterly*, No. 40, October-December 1969
- "The Style of Politics and Foreign Policy in Communist China" in Joseph Kitagawa, ed., *Understanding Modern China*, (Chicago: Quadrangle Books, 1969), pp 139-162
- Harding, Harry (Jr) "Reform in China: A mid-course assessment" in *Journal of Northeast Asian Studies*, Vol. III, No. 2, Summer 1984
- Ho, Samuel P S "The China Trade : Recent Developments and Future Prospects" in *Pacific Affairs*, Vol. 53, No. 2, Summer 1980
- Hollingworth, Clare "New Era for the PLA but Defence has low priority" in *Pacific Defence Reporter*, Vol. XIV, No. 6/7, December 1987/January 1988
- Hollister, William "Capital Formation in Communist China" in *China Quarterly*, No.17, January-March 1964
- Huang, Fangyi "China's Introduction of Foreign Technology and External Trade : Analysis and Options" in *Asian Survey*, Vol. XXVII, No. 5, May 1987
- Hunt, Michael H "Chinese Foreign Relations in Historical Perspectives" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, (New Haven & London: Yale University Press, 1984), pp 1-42
- Jan, George P "The Responsibility System and its Economic Impact on Rural China" in *Asian Profile*, Vol. 14, No. 5, October 1986

- Johnson, Chalmers "Pacific Regional Development : Reality and Myth" in *Asian-Pacific Review*, Issue No. 7, Summer 1987
- Kallgren, Joyce "The Concept of Decentralisation in Document No.1, 1984" in *China Quarterly*, No. 101, March 1985
- Keith, Ronald G "China's Modernisation and the Policy of Self-Reliance" in *China Report*, Vol. XIX, No. 2, March-April 1983
- Lee, Sheng-yi "ASEAN Trade with China" in Saw Swee Hock & Hong Hai, ed., *Growth and Direction of ASEAN Trade* (Singapore, Applied Research Corporation, 1982), pp 41-67
- Leifer, Michael "Conflict and Regional Order in SEA" in *Adelphi Papers No 162*, Winter 1980
- Leong, Stephen "Malaysia and the People's Republic of China in the 1980s - Political Vigilance and Economic Pragmatism" in *Asian Survey*, Vol. XXVII, No. 10, October 1987
- Leung, C.K. "Spatial Redeployment and the Special Economic Zones in China: An Overview" in Y.C Jao & C.K Leung, ed., *China's Special Economic Zones* (Hong Kong: Oxford University Press, 1986)
- Levine, Steven I "China in Asia: The PRC as a Regional Power" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, pp 107-145
- Lieberthal, Kenneth "China in 1982 : A Middling Course for the Middle Kingdom" in *Asian Survey*, Vol. XXIII, No. 1, January 1983
- "Domestic Politics and Foreign Policy" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, pp 43-70
- Luo, Shaohong, Cheng Bifan and Guo Tiesen "China's Changing Industrial Structure: Its Impact on Economic Relations with ASEAN Countries" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Developments in ASEAN and China*, pp 23-51
- McBeath, Gerald "Southeast Asian Chinese in China's Foreign and Domestic policy" in *Asian Profile*, Vol. 11, No. 3, June 1983

- Morrison, Kent "Domestic Politics and Industrialisation in China : The Foreign Trade Factor" in *Asian Survey*, Vol. XXIV, No. 11, November 1982
- Naranarayan, Das "Mao and Modernity" in *China Report*, Vol. XIX, No. 6, November-December 1983
- Oke, Simon "China's relations with the World Economy: Trade, Investments and Contemporary Developments" in *Journal of Contemporary Asia*, Vol. 16, No. 2, 1986
- Petras, James "Contradictions of Market Socialism in China" in *Journal of Contemporary Asia*, Vol. 18, No. 2, 1988
- Phillips, David "China's Modernisation: Prospects and Problems for the West" in *Conflict Studies*, No. 158, 1983
- Pollack, Jonathan "China in the Evolving International System" in Norton Ginsburg & Bernard A. Lalor, ed., *China: The 80s Era*, pp 353-374
- "China's Relations with East Asia and the Pacific Region: Part I" in *Adelphi Papers No 217*, Spring 1987
- "China's Changing Perceptions and East Asian Security and Development" in Douglas T Stuart, ed., *Security Within the Pacific Rim*, (London: International Institute for Strategic Studies, 1987)
- Prybyla, Jan S "Mainland China's Special Economic Zones" in *Issues and Studies*, Vol. XX, No. 9, September 1984
- "China's Economic Experiment : Back from the Market" in *Problems of Communism*, Vol. XXXVIII, January-February 1989
- Pye, Lucian W "China and Southeast Asia" in Robert A. Scalapino & Jusuf Wanandi, ed., *Economics, Political and Security Issues in Southeast Asia in the 1980s*, (Berkeley: Institute of East Asian Studies, 1982), pp 156-173
- Review Correspondents "World Bank forces to defer China's loans" in *FEER*, 6/7/89

- Reynolds, Bruce "China in the International Economy" in Harry Harding, ed., *China's Foreign Relations in the 1980s*, pp 71-106
- do Rosario, Louise "Growth faces many hurdles" in *FEER*, 2/3/89
- "Economic Woes Plague the National Mood" in *FEER*, 2/3/89
 - "The China Syndrome" in *FEER*, 6/4/89
 - "The Misrule of Law" in *FEER*, 6/7/89
 - "Stagnation plagues China's rural sector" in *FEER*, 13/7/89
- Ross, Madelyn "China Heads Towards 2000" in *China Business Review*, Issue 12, No. 4, July/August 1985
- Sadhi, Mohamed "Economic Change and Developments in PRC" in *Jakarta Post*, 10/7/85
- Saich, Tony "New Directions in Politics and Government" in Jack Gray & Gordon White, ed., *China's New Development Strategy*, (London: Academic Press, 1982), pp 19-36
- Salem, Naim Joseph "China's Economic Modernisation : Ideological and Structural Constraints" in *Asian Affairs*, Vol. 15, No. 3, Fall 1988
- Schram, Stuart R "Economics in Command? Ideology and Policy Since the 3rd Plenum" in *The China Quarterly*, No. 99, September 1984
- "China after the 13th Congress" in *The China Quarterly*, No. 114, June 1988
- Schwartz, Benjamin "Modernisation and the Maoist Vision - Some Reflections on Chinese Communist Goals" in Benjamin Schwartz, ed., *Ideology In Flux*, (Cambridge, Massachusetts: Harvard University Press, 1968), pp 162-185
- Schwartz, Henry "Political Leadership and Modernisation in Communist China" in Joseph Kitagawa, ed., *Understanding Modern China*, pp 94-119
- Shee, Poon Kim "The Politics of Thailand's Trade Relations with the PRC" in *Asian Survey*, Vol. XXI, No. 3, March 1981

- Simon, Denis Fred "China's Absorption of Foreign Technology: Prospects and Problems" in Norton Ginsburg & Bernard A. Lalor, ed., *China: The 80s Era*, pp 326-352
- Simon, Sheldon W "The People's Republic of China and Southeast Asia: Predator or Protector" in Karl D Jackson, Sukhumbhand Paribatra & J Soedjati Djiwandono, ed., *ASEAN in Regional and Global Context* (Berkeley: Institute for East Asian Studies, 1988)
- "The Two Southeast Asia and China : Security Perspectives" in *Asian Survey*, Vol. XXIV, No. 5, May 1984
- "Davids and Goliaths : Small Power-Great Power Security Relations in SEA" in *Asian Survey*, Vol. XXIII, No. 3, March 1983
- "ASEAN's Strategic Situation in the 1980s" in *Pacific Affairs*,
- Stoltenberg, Clyde D "China's Special Economic Zones" in *Asian Survey*, Vol. XXIV, No. 6, June 1984
- Sun, Yonghong "Export Processing Zones in China : Buji - A Case Study" in *Economics and Political Weekly*, Vol. XXIV, No. 7, 18/2/89
- Sutter, Robert "Implications of China's Modernisation for East and Southeast Asian Security" in David Lampton & Catherine Keyser, ed, *China's Global Presence: Economics, Politics and Security* (Washington DC: American Enterprise Institute for Public Policy Research, 1988)
- Tai, Lawrence S T "An Assessment of the Foreign Trade of PRC since 1959" in *Asian Profile*, Vol. 15, No. 1, February 1987
- Tai, Ming Cheung "Military Opening Windows to the World" in *Pacific Defence Reporter*, Vol. XIV, No. 6/7, December 1987/January 1988
- "Disarmament and Development in China : The Relationship between National Defence and Economic Development" in *Asian Survey* Vol. XXXII, No. 7, July 1987
- Tajima, Takashi "China and SEA : Strategic Interests and Policy Prospects" in *Adelphi Papers* No. 172, 1981

- Tan, Chung "From Personality Rule to Organisation Rule" in *China Report*, Vol. XX, No.4&5, July-August/September-October 1984
- Tang, Tsou "Political Change and Reform: The Middle Course" in Norton Ginsburg & Bernard A. Lalor, ed., *China: The 80s Era*, pp 27-69
- Teiwes, Frederick "China: The Door Opens A Little" in *Current Affairs Bulletin*, Vol. 61, No. 12, May 1985
- Van der Kroef, Justus M "Competing claims in the South China Sea" in *Asian Profile*, Vol. 9, No. 6, December 1981
- "Normalising Relations with China - Indonesia's Policies and Perceptions" in *Asian Survey*, Vol. XXVI, No. 8, August 1986
- Watson, Andrew "The Management of the Industrial Economy: The Return of the Economists" in Jack Gray & Gordon White, ed., *China's New Development Strategy*, pp 87-118
- Weatherbee, Donald "The Indigenization of ASEAN Communist Parties" in Charles E Morrison, ed., *Threats to Security in East Asia-Pacific* (Massachusetts: DC Heath & Co, 1983), pp 161-183
- West, Philip "China's Influence in the Pacific Basin" in Philip West & A.M Alting von Geusau, ed., *The Pacific Rim and the Western World: Strategic, Economic and Cultural Perspectives* (Boulder: Westview Press, 1987), pp 89-115
- White, Gordon "The New Course in Chinese Development Strategy: Context, Problems and Prospects" in Jack Gray & Gordon White, ed., *China's New Development Strategy*, pp 2-18
- Whiting, Allen S "Assertive Nationalism in Chinese Foreign Policy" in *Asian Survey*, Vol. XXIII, No. 8, August 1983
- Wortzel, Larry M "US Technology Transfer Policies and the Modernisation of Chinese Armed Forces" in *Asian Survey*, Vol. XXXII, No.6, June 1987
- Wong, John "Sino-ASEAN Trade: Structure and Potentials" in Hong Hai & Roy Mackie, ed. *Trade with China*, (Singapore: Times Book International, 1980) pp 34-51

- Wu, Yuanli "Economics, Ideology and the Cultural Revolution" in Joseph Kitagawa, ed., *Understanding Modern China*, pp 120-138
- Yahuda, Michael "China's Foreign Relations and the Modernisation Programme" in Jack Gray & Gordon White, ed., *China's New Development Strategy*, pp 37-54
- Yang, Deming, Yu Yunding and Shen Huasong "Economic Reforms in China and their Impact on China-ASEAN Economic Relations" in Chia Siow Yue & Cheng Bifan, ed., *ASEAN-China Economic Relations: Developments in ASEAN and China*, pp 1-22
- Yao, Wenbin "China's Relations with East Asia and the Pacific Region: Part II" in *Adelphi Papers No. 217*, Spring 1987, pp 75-81
- Young W.Y & Lawrence Grinter "New Security Realities in the Asian-Pacific Perspectives: Purpose and Approach" in Young Whan Kihl & Lawrence Grinter, ed. *Asian-Pacific Security: Emerging Challenges and Responses*, (Boulder, Colorado: Lynnie and Rienner, 1986) pp 1-15
- Zagoria, Donald S "China's Quiet Revolution" in *Foreign Affairs*, Vol. 62, No. 4, Spring 1984
- Zweig, David "Opposition to Change in Rural China: The System of Responsibility and People's Communes" in *Asian Survey*, Vol. XXIII, No. 7, July 1983